

THE ECONOMIC REPORT OF THE PRESIDENT

HEARING

BEFORE THE

JOINT ECONOMIC COMMITTEE CONGRESS OF THE UNITED STATES

ONE HUNDRED FOURTEENTH CONGRESS

SECOND SESSION

MARCH 2, 2016

Printed for the use of the Joint Economic Committee



U.S. GOVERNMENT PUBLISHING OFFICE

99-452

WASHINGTON : 2016

For sale by the Superintendent of Documents, U.S. Government Publishing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512-1800; DC area (202) 512-1800
Fax: (202) 512-2104 Mail: Stop IDCC, Washington, DC 20402-0001

JOINT ECONOMIC COMMITTEE

[Created pursuant to Sec. 5(a) of Public Law 304, 79th Congress]

SENATE

DANIEL COATS, Indiana, *Chairman*
MIKE LEE, Utah
TOM COTTON, Arkansas
BEN SASSE, Nebraska
TED CRUZ, Texas
BILL CASSIDY, M.D., Louisiana
AMY KLOBUCHAR, Minnesota
ROBERT P. CASEY, JR., Pennsylvania
MARTIN HEINRICH, New Mexico
GARY C. PETERS, Michigan

HOUSE OF REPRESENTATIVES

PATRICK J. TIBERI, Ohio, *Vice Chairman*
JUSTIN AMASH, Michigan
ERIK PAULSEN, Minnesota
RICHARD L. HANNA, New York
DAVID SCHWEIKERT, Arizona
GLENN GROTHMAN, Wisconsin
CAROLYN B. MALONEY, New York, *Ranking*
JOHN DELANEY, Maryland
ALMA S. ADAMS, PH.D., North Carolina
DONALD S. BEYER, JR., Virginia

VIRAJ M. MIRANI, *Executive Director*
HARRY GURAL, *Democratic Staff Director*

CONTENTS

OPENING STATEMENTS OF MEMBERS

Hon. Daniel Coats, Chairman, a U.S. Senator from Indiana	1
Hon. Carolyn B. Maloney, Ranking Member, a U.S. Representative from New York	2

WITNESS

Hon. Jason Furman, Chairman, Council of Economic Advisers	4
---	---

SUBMISSIONS FOR THE RECORD

Prepared statement of Hon. Daniel Coats, Chairman, a U.S. Senator from Indiana	34
Prepared statement of Hon. Carolyn B. Maloney, Ranking Member, a U.S. Representative from New York	34
Chart titled “Longest Streak of Private-Sector Job Growth Continues”	42
Chart titled “U.S. Economy Has Grown in 24 of the Last 26 Quarters”	43
Prepared statement of Hon. Jason Furman, Chairman, Council of Economic Advisers	36
Chart titled “History of OMB Budget Projections of Real GDP Growth Rate vs. Actual, Other Forecasts” submitted by Vice Chairman Tiberi	44
Chart titled “Historical U.S. GHG Emissions, Non-Binding Reduction Pledges, and Long-Term ‘Pathway’” submitted by Vice Chairman Tiberi	45
Questions for the record and responses:	
Questions for Hon. Jason Furman submitted by Senator Martin Heinrich	46
Questions for Hon. Jason Furman submitted by Senator Amy Klobuchar	51

THE ECONOMIC REPORT OF THE PRESIDENT

WEDNESDAY, MARCH 2, 2016

CONGRESS OF THE UNITED STATES,
JOINT ECONOMIC COMMITTEE,
Washington, DC.

The Committee met, pursuant to call, at 2:28 p.m., in Room 216 of the Hart Senate Office Building, the Honorable Daniel Coats, Chairman, presiding.

Representatives present: Tiberi, Paulsen, Hanna, Grothman, Maloney, Delaney, Beyer, and Schweikert.

Senators present: Coats, Lee, Klobuchar, Casey, and Peters.

Staff present: Breann Almos, Ted Boll, Doug Branch, Whitney Daffner, Barry Dexter, Connie Foster, Harry Gural, Colleen Healy, Matt Kaido, Jason Kanter, Christina King, Yana Mayayeva, Viraj Mirani, Brian Neale, Thomas Nicholas, Brian Phillips, Ken Scudder, and Phoebe Wong.

OPENING STATEMENT OF HON. DANIEL COATS, CHAIRMAN, A U.S. SENATOR FROM INDIANA

Chairman Coats. As soon as I turn on the microphone, the Committee will come to order.

Chairman Furman, welcome back. We very much appreciate your willingness to come and speak with us, following The Economic Report of the President. It is important for us to understand what is in this and get your take on it, and where we are going. It certainly helps us in terms of our policymaking decisions going forward. I want to welcome you here and thank you for your participation.

Vice Chairman Tiberi, Ranking Member Maloney, and all of us welcome you and thank you for your willingness to continue this long-standing tradition that we have that the Chairman of the Council of Economic Advisers testifies before the Joint Economic Committee.

This year marks the 70th anniversary of the Council of Economic Advisers and the Joint Economic Committee, both of which were created to advise our respective Branches of Government on a wide range of matters affecting the economy.

We appreciate this annual opportunity to engage in dialogue, and look forward to discussing this year's economic report.

Much has been learned over the course of this slow-growth recovery that we are in, and these lessons will only continue for the foreseeable future. The current recovery has been slower than previous recoveries, and subdued expectations about the economic, population, and labor force growth have placed additional pressures on federal budget constraints.

However, I do not accept the often-mentioned assertion that we have entered a new normal of slower economic growth. Policy reforms seeking to create a better tax system, rein in spending, and loosen the regulatory shackles restricting our economy can alter this trajectory by removing some of the structural barriers American workers and businesses face today.

In my opinion, a lot of the problems we would like to solve require us as policymakers to look in the mirror and see how current Federal Government policies are affecting our economy.

In his final State of the Union Address this year, President Obama stated that he wanted, and I quote here, “to focus on the next five years, the next ten years, and beyond.”

However, he admitted one of the most important issues that America faces in the coming years, the financial obligations that will come due over those time frames, and particularly in the beyond.

That was not mentioned once in his address, and how to achieve fiscal sustainability was not among the four questions the President argued that we as a country have to answer.

I found this to be a glaring omission, given how our national debt has risen so sharply over the past seven years from \$10.6 trillion when President Obama took office to now over \$19 trillion dollars.

This accumulation of such staggering levels of debt is nothing short of reckless, and the situation will only get worse the longer we wait to address it.

According to a recently released report by the nonpartisan Congressional Budget Office, in just 10 years spending on mandatory spending programs and interest on the debt will consume nearly 99 percent of all federal revenues. Clearly this path is unsustainable.

So if we do not work now to correct this disturbing trajectory, our ability to pay for essential government functions will be severely constrained. Our economy will suffer. And our national security will be at risk.

The CEA’s report we will discuss today devotes significant attention to inequality as a defining challenge of the 21st Century. However, I think it is important to recognize that intergenerational theft is also a form of inequality, a particularly severe one that our children and grandchildren are poised to inherit.

Their ability to succeed in our future economy will depend largely on the decisions that we make today. For the American Dream to remain attainable for future generations, we must accept the reality of our fiscal situation and act responsibly by addressing it immediately.

I look forward to discussing these issues in more depth with Chairman Furman, and I will now turn to our Ranking Member Maloney for her opening statement.

[The prepared statement of Chairman Coats appears in the Submissions for the Record on page 34.]

**OPENING STATEMENT OF HON. CAROLYN B. MALONEY,
RANKING MEMBER, A U.S. REPRESENTATIVE FROM NEW YORK**

Representative Maloney. First of all, welcome, Dr. Furman, and thank you for planning this hearing, Mr. Chairman. And thank

you, Dr. Furman, for appearing yet again before us today to answer questions about the current state of the U.S. economy.

I share the overall assessment of the Economic Report of the President that under the leadership of President Obama the Nation's economy is back on track after what was the worst recession since the Great Depression.

We have just completed the best two years of private-sector job growth since the 1990s. We have recorded the fastest two-year drop in the annual average unemployment rate in 30 years.

The unemployment rate has been cut in half. As you can see in this chart, we are in the midst of the longest streak of private-sector job creation in history, with a record 71 straight months of growth and the creation of 14 million private-sector jobs.

[The chart titled "Longest Streak of Private-Sector Job Growth Continues" appears in the Submissions for the Record on page 42.]

There are some who look lightly at these achievements, claiming that the Obama recovery pales in comparison to average, quote "average" recoveries, as if the economic meltdown during the last years of the Bush Administration was, quote, "an average recession."

Is the loss of almost 9 million American jobs "average"? Is the loss of homes for 9 million Americans "average"? Let's remember, when George Bush left the Oval Office, the economy was in a death spiral.

In the final quarter of 2008, GDP shrank at a staggering 8.2 percent annual rate—the worst quarterly economic performance in more than 50 years.

Housing prices were collapsing. U.S. households lost nearly \$13 trillion.

Dr. Furman, last year you told us that this recession was like an economic heart attack. You said the share of wealth lost in the early days of this recession was almost 5 times as large as the loss in wealth that triggered the Great Depression.

Thanks to the bold action of President Obama, Democrats in Congress and the Federal Reserve, we have steadily climbed back from this recession. As you can see from this chart, the U.S. GDP has grown in 24 of the past 26 quarters. Real GDP has grown by over 14 percent since the start of the Obama Administration.

[The chart titled "U.S. Economy Has Grown in 24 of the Last 26 Quarters" appears in the Submissions for the Record on page 43.]

The auto industry, written off by some as dead, has already added nearly 640,000 new jobs since 2009, and it is now exporting more than 2 million units per year.

Average housing prices have rebounded to 2007 levels, and household wealth is more than \$17 trillion higher than before the recession.

This recovery has occurred despite efforts by many Republicans in Congress. First, they opposed stimulating the economy. In fact, every single one of them in the House voted against the Recovery Act.

They demanded budget cuts at exactly the time when economic theory says government should increase spending to boost demand.

The Report notes that the economy faces long-term structural challenges.

First of all, the Baby Boomers are retiring. That alone will decrease labor force participation and slow the growth of GDP.

We also face the devastating effects of off-shoring of American jobs and job losses due to automation and technical changes. These challenges are not a surprise. They have been on economists' radar for years.

So what should we do? I agree with your assessment that we need to rebuild the Nation's crumbling infrastructure, invest in early childhood education, implement paid leave, achieve equal pay for equal work, and make college more affordable.

I want to close by looking at economic inequality, one of the central issues of our time, and the focus of the first and fourth chapters of the Economic Report of the President.

The U.S. experience has diverged from other advanced countries. Since 1987, the share of income going to the top 1 percent in the United States has been greater than in every other G-7 country every single year.

We need to recommit ourselves to policies that expand opportunities and narrow inequality. These policies will pay dividends in the future, and help us create an economy that is even more robust, an economy where the benefits of growth are shared across the income spectrum.

As you note, giving all people a fair shot will strengthen our economy by boosting productivity and accelerating growth.

Dr. Furman, thank you once again for appearing before the Committee. I am eager to hear your testimony. And congratulations on an excellent report.

[The prepared statement of Representative Maloney appears in the Submissions for the Record on page 34.]

Chairman Coats. Thank you, Ranking Member Maloney. Now we turn to introducing our distinguished witness, Chairman Furman.

Jason Furman is the Chairman of the Council of Economic Advisers. Previously he served as a Principal Deputy Director at the National Economic Council, and Senior Vice President of the World Bank.

He has also been a senior fellow in economic studies and Director of the Hamilton Project at the Brookings Institution.

Dr. Furman earned his Ph.D. in Economics and a Masters of Arts in Government from Harvard University, and a Masters of Science in Economics from the London School of Economics.

Thank you, Chairman Furman, for joining us. We look forward to hearing from your report.

**STATEMENT OF HON. JASON FURMAN, CHAIRMAN, COUNCIL
OF ECONOMIC ADVISERS, WASHINGTON, DC**

Chairman Furman. Thank you, Chairman Coats, Vice Chairman Tiberi, Ranking Member Maloney, and members of the Committee. We are excited to be here today to talk about the 70th Annual Economic Report of the President, something that the CEA and this Committee have had a chance to do many, many times over the decades.

This report's overall macroeconomic theme is that 2015 was a year of continued growth for the U.S. economy in the face of substantial headwinds from abroad.

Ranking Member Maloney cited a number of the statistics: the strongest job growth in two years—in two years of job growth in a decade; the largest decline in the unemployment rate in 30 years; and the longest streak of private-sector job growth on record.

The unemployment rate has consistently fallen well faster than what anyone would expect, falling to 4.9 percent, its lowest since February 2008, as compared to forecasts which as recently as 2014 had expected it to stay above 5 percent through 2020.

At the same time, the labor force participation rate has been relatively stable over the past year, as improving economic conditions partially offset the drag on participation from the retirement of the Baby Boom Generation.

And perhaps most importantly, over the past six months nominal hourly earnings for private-sector workers have grown at their fastest pace since the Great Recession, although more work remains to be done to boost wages.

Our domestic progress is all the more notable in light of the substantial headwinds that the United States faces from the global economy.

The International Monetary Fund estimates that global economic growth was 3.1 percent in 2015, the slowest since 2009, and continuing a trend of falling below expectations.

The United States had the highest growth rate of any major advanced economy, but slowing growth in a number of large emerging markets weighed heavily on the global economy in 2015.

Weak growth abroad served as a drag on U.S. exports, with exports subtracting 0.1 percentage points from real GDP growth in 2015, a substantial shift from the half-point that experts had been adding to growth in 2013 and 2014. And we expect these headwinds to continue into the year 2016.

Particularly in light of these adverse global developments, it is important that we work to strengthen domestic growth by boosting productivity and dynamism in the U.S. economy.

It is also important that we work to ensure that the benefits of economic growth are shared broadly. And to this end, the 2016 Economic Report of The President lays out the President's agenda for inclusive growth.

Despite progress since the Great Recession, the unequal distribution of income, wealth, and opportunity remains one of the greatest challenges facing our economy. It is not unique to the United States, but it is more severe here than in other countries around the world.

Some of the increase we have seen is a natural consequence of competitive markets, a result of differences in productivity as technology evolves, but some of the increase may reflect the rising influence of what economists call economic rents: the income captured by companies and workers beyond what their productivity justifies.

The apparent increase in rents in recent decades and their overall increasingly unequal distribution have contributed to overall in-

equality without boosting productivity, providing opportunities to improve both efficiency and equity in the U.S. economy.

The President's agenda includes making competitive markets work better by increasing opportunity and combating the trend of rising unequally divided rents.

Competition most effectively promotes economic growth when it is open to the widest pool of talent. So the President is promoting equality of opportunity by investing in education, supporting children in low-income families, and ensuring a fair criminal justice system.

And the President also supports policies to make markets more competitive by reducing overall economic rents through promoting more open and competitive markets, balanced intellectual property rules, and a smarter approach to occupational licensing and regulation, among other policies.

Now other sections of this year's report lay out additional steps we can and should take to ensure a strong domestic economy, including expanding trade, investing in technology, investing in infrastructure, and investing in children.

And I would be more than happy to talk about these or any other topics that you're interested in.

Thank you.

[The prepared statement of Chairman Furman appears in the Submissions for the Record on page 36.]

Chairman Coats. Mr. Chairman, thank you very much. I want to apologize for having to leave shortly. The Senate has called for four consecutive votes, which will take a considerable amount of time.

I am going to ask my question to you, and then turn this over to Congressman Tiberi, our Vice Chairman, who will recognize Mrs. Maloney as Ranking Member. And then, in this somewhat byzantine order of who came first, and which chamber you are from, and what is your seniority, we will try to do a fair allocation of back and forth. And I have someone here who has studied fastidiously and is an expert on telling you, Vice Chairman, who is next. And, trust me, with people in and out and back and forth, it can get very complicated.

Mr. Chairman, I came to office a long time ago. One of the very first critical votes I had to face was the decision as to whether or not we would raise our debt ceiling limit to over \$1 trillion.

People say, wow, that must have been a hundred years ago. No, not quite. That was 1981. Today, we are at the \$19 trillion mark.

Look, let's take the politics out of this. We had three years of balanced budgets at the end of the 1900s before we came into this New Millennium. Under both Republican control and Democrat control, we have seen an ever-accelerating plunge into debt.

We know that the Darth Vader of the future economy is lurking out there waiting to collect the bills. We know that from CBO the projections going forward are dramatic relative to the way discretionary spending shrinks as mandatory spending continues to grow.

In fact, CBO said that in 10 years we will at the current trend be at 99 percent—that 99 percent of our budget will be consumed by mandatory spending and interest coverage.

This obviously is unacceptable. We know the Baby Boom budget—Baby Boom era has been descending upon us. We have known this for decades. And so if we can take the politics out of this as to who to blame, and who is responsible, and simply say we now, whether you are a Republican or a Democrat, a conservative, liberal, or in between on that spectrum, we have a common challenge that has to be addressed.

It has been pushed down the road over, and over, and over. It is becoming increasingly a hindrance to our economy and ability to grow, to provide for our national security, to pave roads, to build infrastructure, to provide for health care, research, and you name the functions that are necessary to be addressed.

So I wonder if you would tell us, what is the next President, regardless of who that is, what is the next President and the next Congress, what do they need to do to finally stand up to this looming crisis to put in place a long-term solution that is feasible in terms of how we need to govern, but will put us on a path to more fiscal responsibility and avoid this coming wall that we are going to hit if we do not take action?

I may not be able to be here to hear your final answer on that, but we would like it for the record. And I would appreciate it if you would address that. That is my only question, and then I will turn it over to Mr. Tiberi.

Chairman Furman. So thank you very much for that question. And I think I agree with the premise of almost everything that you said. I think it is important to put this in context. Our deficit was nearly 10 percent of GDP when the President walked in the door. That was a consequence of a very severe Recession.

The deficit has come down to 2.5 percent of GDP, which is below the average of the last 40 years—

Chairman Coats. But we know it is going to spike shortly, right?

Chairman Furman. Absolutely. And that is due to a combination of deficit reduction and also a strengthening economy. Doug Elmendorf, the former CBO Director, recently co-wrote a paper in which he argued that the fiscal outlook over the next 25 years is a challenge, as you said, but is less of a challenge than it looked a couple of years ago—in part because of the steps we have taken, and in part because of lower interest rates.

But more does need to be done. The deficit will rise as a share of GDP. The debt will rise as a share of GDP, and our approach is a balanced combination of measures on the spending side, including to entitlements, and measures on the tax side which predominantly are not about raising rates but are about cutting back on tax benefits for high-income households, many of which are not economically efficient.

The last thing I should say is that ultimately our goal is to see the debt-to-GDP ratio on a downward path and stabilized. One can accomplish that both by lowering debt, but also by raising GDP.

So steps that strengthen our economy are a really important part of how we need to deal with our debt and deficit as well.

Chairman Coats. Thank you. We finished 12 seconds ahead—whoops, 12 seconds behind my time. So I need to pass this on to

Mr. Tiberi, and again apologize for having to leave, and hopefully to be back as quickly as I can.

Chairman Furman. Thank you.

Vice Chairman Tiberi [presiding]. Thank you, Mr. Chairman. I will recognize the Ranking Member, Mrs. Maloney, for five minutes.

Representative Maloney. Thank you, very much.

A major focus of The Economic Report of the President is widening economic inequality. And your report argues that extreme inequality can be a macroeconomic problem, a drag on productivity and growth.

Please explain to even those who are not concerned about the growing gap between the haves and the have-nots, why we should be concerned about inequality, and why is vast inequality everybody's problem?

Chairman Furman. Thanks for your question. And I think there are a number of reasons. One of the clearest is that if you have inequality of income, you are going to have inequality of opportunity. And if you have inequality of opportunity, there is talent that could be contributing to more of our economy but will not get the shot that it should get because of lacking educational and other opportunities.

So we will miss out on the innovation and creativity we need to push us forward.

Representative Maloney. Okay. As you noted in your testimony, the share of income going to the top 1 percent in the United States is much higher than in other G-7 countries.

Why has the experience in the United States been so different from the other G-7 countries?

Chairman Furman. All of our economies are facing similar forces in terms of technology and globalization, and those have played a role in rising equality across the advanced economies.

One thing that has happened in the United States, though, is we have made less of an investment in education that would let our workers keep up with the skills that would complement the advances we have seen in technology, or to take advantage of globalization.

So that is one reason why we have seen an increase in inequality.

I think also institutional changes matter, the fact that the United States has a minimum wage that is very low by the standards of the G-7 has been eroded substantially by inflation, has also been a contributing factor to the increase in inequality.

Representative Maloney. Many people understand that expanding economic opportunity for women in the workplace and paying them fairly is the right thing to do. Why is it also good for the broader economy?

Chairman Furman. One of the challenges we face in our economy is a demographic challenge, that we are an increasingly aging society and that has slowed the growth of our labor force.

One of the ways to increase the growth of our labor force would be to incorporate both more men and women in the workforce. And when you take steps like more flexible workplaces, more subsidies for child care, reducing the tax penalty on secondary earners, and

other measures along those lines, paid leave, all of that helps bring more women into the workforce and helps us overcome some of the demographic challenges we have built into our age structure.

Representative Maloney. And people understand that programs like Head Start, and universal pre-K are an effective tool for helping children succeed in life. What are the economic benefits for allowing all of our children to have this opportunity of pre-K?

Chairman Furman. Recently economic research has been taking advantage of studies that follow children over a very long period of time after public policies. And they have found that high-quality preschool, for example, raises future earnings substantially, and raises them more than enough to justify the initial cost of the program.

High-quality preschool also, by the way, helps women's labor force participation. So it helps today the family as a whole, and balancing work and family, and then it helps the children later on. That is true of a wide range of interventions—the Earned Income Tax Credit, Supplemental Nutritional Assistance Program, and Medicaid, all have been shown to have long-term benefits for children in terms of education, earnings, and health.

Representative Maloney. When the United States Congress instituted automatic spending cuts in 2013, did it help or hurt the economy?

Chairman Furman. That hurt the economy. It created a fiscal headwind.

Representative Maloney. Well my time has expired. Thank you.

Vice Chairman Tiberi. Thank you, Ranking Member.

Good afternoon, Chairman Furman. Thanks for joining us today. In his letter to Congress introducing the ERP, President Obama says, and I quote, “I have never been more optimistic about America's future than I am today.”

However, the chart that I have, hopefully on the screen here in a second, shows that past growth projections from the Administration have not lived up to expectations. They have failed.

[The chart titled “History of OMB Budget Projections of Real GDP Growth Rate vs. Actual, Other Forecasts” appears in the Submissions for the Record on page 44.]

And that now, by the Administration's own estimates, the long-term growth potential is meager, at best. So the red is OMB's forecast. The solid black line is actual. And the dotted black line is the new projection going forward. And then the blue, the various blue lines, are other nonpartisan organizations. And you can see the growth. GDP growth is between 2 and 2½ percent, which is below the historic averages.

As you know, business investment is essential to economic growth, job creation, and rising living standards. It has slowed dramatically in the last two years.

So you describe an optimistic and a pessimistic view of the future trend in business investment within your report. So are you optimistic, or pessimistic?

Chairman Furman. Thank you so much for that question. Of course I am optimistic, and that optimism depends both on the in-

herent strengths of the U.S. economy and also the policy measures that we can take.

Now if you look at the unemployment rate—and I had shown that chart in my initial presentation—that has consistently fallen faster than our forecasts. Interest rates have come in below our forecasts. And the goal of these forecasts is to forecast the budget deficit, which has also generally come in at less than what we had expected.

So a number of things have come in better than expectations. I think you are right, though, on the business investment across all the advanced economies: the UK, the Euro Zone, Japan, has not been what we would like to see. And I think a lot of that is the consequence of the very deep Recession.

The bright spot within business investment is research and development by private companies is the highest it has been as a share of GDP.

Vice Chairman Tiberi. So you yourself mentioned the importance of GDP growth to the Chairman, Mr. Coats' question regarding our debt and our long-term debt. So Larry Summers, who you know, recently talked about secular stagnation. His hypothesis sees low capital investment, slow labor growth, and slow technological progress as lasting conditions long term.

Is secular stagnation the same as the pessimistic view in the ERP? Or how do you explain it? And do you agree with it?

Chairman Furman. I guess I interpret secular stagnation as a specific economic hypothesis about long-term equilibrium interest rates and the like. I think it has a number of problems in its application to the United States. I think it may help us understand places like Japan and the Euro Zone. I do not think it applies to the United States.

That being said, I think the impetus that we need to take bold steps, like invest more in our infrastructure, are very much true and we would have a brighter future if we did that.

Vice Chairman Tiberi. Okay, last question. I've got a chart up here. I was disappointed that the ERP does not address what I believe is the limiting effect on economic growth potential from a whole host of the Administration's actions and policies like increased spending, debt, failure to reform the tax code, and the regulatory burden through regulations.

[The chart titled "Historical U.S. GHG Emissions, Non-Binding Reduction Pledges, and Long-Term 'Pathway'" appears in the Submissions for the Record on page 45.]

For example, on this chart it shows historic and projected greenhouse gas emissions, including the effects of the President's Clean Power Plan, and specifically the Paris Pledge. These policies and regulations are not even mentioned in the ERP, and the Administration has apparently turned away from the "all of the above" energy strategy that it was once in favor of as it now closes power plants and natural gas and nuclear power.

So we have also seen this Administration pour on new financial, labor, and environmental regulations. Aren't those holding down economic growth? And aren't there not massive costs associated with such a decline in emissions, for instance, on this chart?

And these policies, none of them which I just mentioned, are included in this Economic Report. Shouldn't the ERP discuss the most important issues impacting our economy, and explain that some government policies might constrain economic growth?

Chairman Furman. I, you know, to some degree when you don't see something in the Report, it is just a matter of space. And we already imposed 430 pages on you. You mentioned taxes. Last year, for example, we had a long discussion of business tax reform, and I would hope you would find a lot to agree with in that discussion: the importance of lowering our rates, and making our international system more competitive.

We just did not repeat that again this year, not because it is not important, just a matter of space. On regulations, I suspect we probably see it a little bit differently. And certainly our analysis of the determinants of investment growth in the economy finds a trajectory of investment growth we have seen is very well explained by a traditional model that does not take into account these regulatory changes.

And the investment we have seen, performance in the U.S. economy has been very similar to other economies that have had very different regulatory trajectories. So I do not think they are a very important factor in explaining this macro phenomenon.

Vice Chairman Tiberi. Thank you. My time has expired.

Mr. Beyer is recognized for five minutes.

Representative Beyer. Thank you, Mr. Chairman.

Chairman Furman, the report notes that, quote, "While investment has been low, the rate of payouts to shareholders by non-financial firms in the form of dividends or net share buy-backs has been rising. Nonfinancial corporations are now returning nearly half of the funds that could be used for investment to stockholders."

One possible explanation provided by the report is that, quote, "The rise in payouts to shareholders may be related to the decline in the startup rate of young firms who are more likely to reinvest their cash flow than mature firms."

The report also notes that the lower investment growth in higher share of funds returned to shareholders suggest firms have had more cash than they thought they could profitably reinvest.

However, the rise in share buy-backs predates current economic circumstances. Senator Baldwin, among others, has pointed to a 1982 SEC rule that provided for safe harbor from manipulation liability at the beginning of the explosion of stock buy-backs.

Prior to 1982, buy-backs were a very limited use of corporate profits. And buy-backs, as we know, can make earnings reports look better and improve short-term executive compensation, and foster short-term thinking in the corporate governance.

Can you comment on the impact of this and other regulatory changes have contributed to the current investment environment? And should we be seeking to limit buy-backs as a means of promoting private-sector investment?

Chairman Furman. So thank you for your question. I have certainly seen the hypothesis put forward that that 1982 regulation has played a role in the rise of buy-backs. And it is certainly the

case that buy-backs have risen over time. It is not just a recent phenomenon.

I have not seen—reviewed the research in terms of assessing that link, so I do not have an opinion on that. I would be happy to look into it a little bit more and get back to you.

I think one of the most important questions for us to ask, though, is what can we do to make sure companies have good things to invest in, and make sure that we have a really dynamic system in which new businesses are being formed and coming into existence.

And if you have a large, mature company that does not have great investment projects, I would rather that money go back to shareholders, and then the shareholders can allocate it to some other part of the economy that could be of higher efficiency.

So I usually step back and look a little bit less at where the money is going, and a little bit more at what is shaping the business decisions and the business opportunities in terms of the real investment prospects they have.

Representative Beyer. Great. Thank you, very much.

The ERP contains a very interesting discussion of the impact of economic rents as a driver of inequality. And I like your simple definition, which was: Economic rents is income captured by companies and workers beyond that which their productivity justifies.

Rents can also be created by market consolidation and regulations which favors specific business or sector of industry over its competitors.

Can you recommend policy approaches to address the undeserved rents?

Chairman Furman. Sure. One is something that Senator Lee and Senator Klobuchar held a hearing on a few weeks ago, which is occupational licensing. The fact that at the state level now 25 percent of occupations you need a license to get that reduces our ability to move between jobs. If you are one of the lucky people with a license, it lets you command a premium.

Land use restrictions that drive up the cost of living in certain areas also create rents, both literally and in the economic sense.

Greater degree of competition is important in this regard. But the other thing I would say is, some rents are inevitable and it is a question of how they are divided. So a higher minimum wage, or expanding workers' voice, including labor unions, would help make sure that when you are dividing the pie it gets divided a little bit more towards the labor end.

Representative Beyer. Thank you. You know, Mr. Chairman, we keep hearing about mandatory spending continuing to increase, and that at some point in our lifetime it will be 100 percent of federal revenues.

Do we have a plan to address the long-term thinking about what we are going to do to maintain a meaningful discretionary part of our budget?

Chairman Furman. We currently have much lower projected health care both level and growth rates going forward than the projections six or seven years ago. That is in part due to the Affordable Care Act, and in part due to a set of changes that were under

way in our health system, and continuing to implement that which is most of the job of our Administration is really important.

We could also take additional steps modeled on that to bring down the cost of health care, helping to reduce premiums, extend the life of Medicare, and reducing the pressure on discretionary spending that you cited in your question.

Representative Beyer. Thank you, Mr. Chairman.

Vice Chairman Tiberi. Mr. Paulsen is recognized for five minutes.

Representative Paulsen. Thank you, Mr. Chairman, and thank you Dr. Furman for being here and following up on the report.

It is interesting to me because some of the numbers you cited and that the others cite are often cited in terms of numbers, and the economy is back on track. We have had the fastest, we have had the best, and we have had records.

Here is another number that I think is really critical: The U.S. Bureau of Labor Statistics announced that for all of 2015, all of last year, that we had U.S. productivity—labor productivity rose only 0.6 percent. So this is the fifth year in a row where that growth has been below 1 percent.

So since the U.S. started collecting this data, going back all the way to 1947 up until now, there has never, ever been such a poor five-year stretch because we have had five years in a row where it has been below 1 percent.

So knowing that is the case, this is really important, the link between increases in labor productivity and the average U.S. standard of living, one example now estimates for instance that because of the annual increases in labor productivity of 3 percent, if you had 3 percent the average standard of living would double in just about 24 years here in the United States.

But now if you compare it to the last five years we have had with low productivity growth, we have actually changed it where the average standard of living will not be doubled until every 139 years. So 139 years to double our standard of living.

So these are numbers I think that are behind what many people feel, or sense that they feel it is the disappearing of the American Dream. And it is probably why 72 percent of the public feels we are in a recession right now, even though technically we are not.

So I am not a doctor, but I think one of the rules we have in medicine is “do no harm.” So just in terms of that question, Mr. Furman, to what end do you or the Administration, what thoughts have you given? What analysis have you provided? Or do you acknowledge that the cumulative effect of a lot of regulations on small, on medium, on large businesses has had on a lack of productivity growth, and the effect that that is now having on a lower standard of living in the United States?

Chairman Furman. Thank you for your question, and I think you are right to identify productivity as one of the biggest challenges our economy faces. An analysis by the San Francisco Fed put the date at around 2004 when productivity growth started to slow.

It is something we have seen, as I have said in other contexts, across a range of other countries. The United States—and one of the reasons I am optimistic about the United States—is over the

last 10 years we have had the fastest productivity growth of any of the other G-7 economies. But we certainly have not had enough. As you said, that plays a big role in terms of what future we can expect for wage growth. And so I think the most important question is what steps can we take?

I would suggest expanding markets abroad, through steps like TPP. Reforming our business tax system, lowering the rate and reforming the base. Investing more in infrastructure. Investing more in research and development. And bringing down our deficit to free up more private capital for investment.

Those are five really important steps we could take to increase our productivity growth.

Representative Paulsen. And I would agree. Tax reform. Expanded trade opportunities. Sell more American goods and services overseas. Get the money back home.

But what about the regulatory environment? I mean, do you acknowledge, or have you done analysis just on the weight of regulations from a cumulative effect that that has actually had?

I mean, it's a consistent message that I hear from my employers that I visit with in Minnesota all the time.

Chairman Furman. I don't think the—I think it is very important to get regulations right. And one of our jobs at CEA is to participate in the process by which Executive Branch regulations are reviewed. And we take that responsibility very seriously and work hard to get the benefits as high relative to the costs as you possibly can.

Often that means doing regulations in a way that is flexible, that uses market mechanisms. I think if you do that, it can be consistent with a stronger economy and strong productivity growth.

Representative Paulsen. Thank you, Mr. Chairman.

Vice Chairman Tiberi. Thank you. Congressman Delaney is recognized for five minutes.

Representative Delaney. Thank you, Mr. Chairman. I also want to welcome Chairman Furman and thank you for your very intelligent report and testimony here today. It also has pretty significant throw weight associated with it, so it is a great work product, as usual.

I was going to ask about economic rents, but my friend from Virginia already covered that, so I wanted to actually go back to a point that was raised by the Chairman about the Paris Accord, and thinking about this debate about economic growth as it relates to how we position the country around climate change.

So when you think of two postures, one that is more forward leaning as it relates to climate change—in other words, setting goals like 50 percent clean electricity by 2030, or various goals that are achievable based on current technology but aspirational—you know, stretch goals—versus not taking these steps, and not putting the proper incentives in.

How do you think about that as it relates, putting aside environmental stewardship, but just as a pure matter of economics, which posture will drive greater economic growth for the United States?

Chairman Furman. I think acting as soon as possible to create as predictable a path for the future, and one that is, as you said, is achievable but a little bit of a stretch to make sure we are chal-

lenging ourselves, is the thing that makes the most economic sense, especially in a world where most every other country in the world is doing the same thing.

And so some of the progress we have seen in solar energy, in wind, in conserving energy, all of that is helping to make sure jobs are located here in the United States.

Representative Delaney. And when you think about job creation opportunity in carbon-intensive industries versus non-carbon-intensive industries, what does the data suggest in terms of both—what it is likely to do to our economic growth, but also this notion, and I may be wrong about this, but my sense is that the carbon-intensive industries have become much more automated and therefore are not actually driving labor, and in fact they're not, even as they produce the same amount of energy, they are not reducing their labor participation in these industries, versus the clean energy, green energy, whatever you want to call it, that actually tend to be more labor intensive. Do you have a view on that?

Chairman Furman. Yes. So that is my understanding, as well, that a lot of the traditional carbon-intensive industries are very capital heavy. It is a continuum, though.

So natural gas, for example, has carbon, but it has half as much carbon, beginning to end, as coal would have. And we have had substantial increases in natural gas production, and that has helped to create jobs in our country.

And I think that is a good thing, and something that we would welcome and encourage. It is also something that is compatible with how we are trying to hit our goals for climate change. But then solar and wind, and a range of renewables, and the set of industries around those, as you said, are very labor intensive.

Representative Delaney. And then when you think about economic risk, or threats to American prosperity, if you will, because as we have seen from the economic performance that this country has realized across the last seven years, particularly relative to our competitors—which this might be one of the greatest periods of time when we have outpaced the rest of the world in terms of how we have recovered from the financial crisis and how well our economy is doing relative to other places, and how less dependent we are on other parts of the world. And so things like what is happening in the developed world are affecting us less than anywhere else.

But when we think about that threat, Mark Carney, the Chairman of the Bank of England, gave a speech about a year ago where he talked about one of the risks to financial markets that he saw was in fact climate change. Because, he said, there might be a point in time when people actually—it may not be when some of the catastrophic scenarios occur, but when people actually come to the view that it will be a reality, and there is a dramatic repricing of assets based on that.

How do you think about that in terms of risk to our economy if we do not deal with it in a prudent way?

Chairman Furman. Right. So—

Representative Delaney. And do you have macro views as to how much climate change could hurt our economy?

Chairman Furman. So we, the Administration has what is called “the social cost of carbon.” It is an estimate of how much each ton of carbon costs us economically. Our estimate is about \$40 a ton that we use as an input into the rulemaking process.

That estimate does not include the uncertainty in tail risks associated with climate change, and that is a lot of what Mark Carney was talking about in that speech you referred to. And that might even be a larger and more consequential cost than just this.

And then at the other end, the sooner you deal with it, the cheaper and more efficient it is. If you waited 30 years, it would be quite costly to our economy to address.

Representative Delaney. Great. Thank you, Chairman.

Chairman Furman. Thank you.

Vice Chairman Tiberi. Senator Lee is addressed—excuse me, is recognized for five minutes.

Senator Lee. Thank you, Mr. Chairman.

Thank you, Chairman Furman, for coming to testify today. I want to thank you also, once again, for coming to testify on occupational licensing just last month in the Judiciary Committee.

I would like to speak with you about innovation and get your thoughts on a piece of your report that focused on the potential job market effects of robots.

It seems that we might be nearing a really significant technological inflection point, one that could have profound implications for our economy. Boston Dynamics continues to release videos of robots with incredible mobility and coordination, while industrial applications involving machine learning and analytical algorithms that at some level simulate cognition continue to advance.

Some observers have suggested that we may be on the edge of a new wave of innovation, and that this new wave of innovation might in some ways be similar to that which was spurred on by the invention of the internal combustion engine, for example, which of course effectively led to a really sharp and economically significant decline in the use of horses.

First of all, as policymakers should we be thinking about automation as a discrete issue? Or is it better thought of as a piece of a larger challenge involving globalization, trade, and a number of other similar factors?

I am referring in particular to the challenges facing lower skilled, lower income workers and their jobs.

Chairman Furman. I think that is a great question, and it is something that I know I grapple with all the time. I think to some degree that is all one set of issues. But I think automation brings it to the fore in a very direct way.

In theory, automation should not present any problem at all. We have had automation for thousands of years, and we always find more jobs for people. But in practice that can come at a cost, either in terms of inequality if you do not have the skills to benefit from it, or some people who get displaced do not find another job and you might call it transitional or temporary, but that could last for decades.

Senator Lee. Right, right, which is part of why I raised the question here. This one could be different in some ways, and I was looking to try to stay ahead of the curve.

Your report estimates a high likelihood that jobs today paying less than \$20 per hour will eventually be automated. There does not seem to be a hard timetable for your projection, but is that accurate?

Chairman Furman. That is accurate. And we were drawing on research that was done at Oxford in that regard. McKinsey has also done their own research that reaches similar conclusions to what is presented there.

Senator Lee. The current Administration supports of course raising the minimum wage. And obviously every policy has tradeoffs. That is what we try to hash out in these debates. And one of the things we discuss in this Committee are the economic implications of policies like that one.

But if low-paying jobs are the ones that are most threatened, most potentially threatened by automation, doesn't raising the minimum wage just raise the cost of low-skilled work and incentivize employers to accelerate the process of automating these jobs, the very jobs that we are perhaps most concerned about?

Chairman Furman. I mean the evidence that I have seen for moderate increases in the minimum wage phased in over time, similar to the types of proposals that have been put forward in Congress, has found that they don't have adverse effects on employment.

But certainly if you were to raise the minimum wage to \$30 an hour, you know, I would expect you would have a tradeoff.

Senator Lee. At some point you are going to get there, to a tradeoff, and perhaps when you factor in the effects of automation that tradeoff could end up being significant.

Chairman Furman. I think it is important as part of an overall strategy to make sure our workers have more skills and more productivity.

Senator Lee. Got it. And I want to be clear. I am not trying to get you to disavow the President's policies here. I know that is not something that is going to happen, certainly not in this forum and not in your current position, but what I am asking is:

If our goal as a society is that an honest day's work should earn an honest day's wage, and machines are going to make it harder, and in some cases perhaps impossible for low-skilled, entry-level Americans to find an honest day's work, doesn't the basic design of our social safety net have to perhaps look a lot different than it does today?

Chairman Furman. I think it certainly has implications for how we design our social safety net, and I think that is an important conversation to have. I would not throw out the lessons of the last 50 years, and we are certain of what has worked and what has not, I think minimum wage has worked. I think Earned Income Tax Credit has worked. But I think we should be thinking hard about these questions going forward, as well.

Senator Lee. Okay. Thank you very much, Mr. Furman. Thank you, Mr. Chairman.

Vice Chairman Tiberi. Thank you. Senator Klobuchar is recognized for five minutes.

Senator Klobuchar. Thank you very much, Mr. Chairman, and thank you. I am sorry that Senator Coats and I have had a number of votes going on here.

I appreciate the words about the improvement of the economy. I think we have all seen that. Our State is down to 3.7 percent unemployment. But we also know there are challenges. You raised one, Mr. Chairman, about income inequality. We have challenges for workers that are retired and have issues with their pensions.

In fact, right behind you there, who I am going to meet with later, is Sherman Liimatainen who is from northern Minnesota, spent his whole life. Started as a janitor, was then a Teamster and a union delegate. He is working on a pension issue because of a decision that is inordinately affecting a lot of states in the Midwest that we are trying to work on.

But another issue up in northern Minnesota that I know that you are well aware of is the current employment situation with the iron ore mining affected by the over-production in many countries, combined with illegal steel dumping that we know is going on. And I have really appreciated the recent moves of the Administration to try to be more aggressive in the enforcement, including adding nearly 38 new Commerce Department employees to focus on trade enforcement from the budget money we got last year, as well as working on the enforcement actions, including some new tariffs today.

Could you talk about that industry, and what is going on, and what you think the future is?

Chairman Furman. Yes. Thank you. And this is an issue we do pay a lot of attention to, Senator.

The backdrop for this is the substantial global over-capacity in steel. And that steel capacity is 70 percent outside of the OECD economies, much of it in economies that have made very heavy state investments in supporting their steel industries.

This overcapacity has collided with a collapse in worldwide demand for a range of commodities and products, including steel, and the result has been a 35 percent decline in steel prices in 2015, which is having a significant impact on our industry and in your State, among others.

We have, as you said, taken 149 antidumping and countervailing duty actions, 40 of them in 2015 alone. It is the highest rate of actions in at least 14 years. That has contributed to the fact that steel imports are down 13 months—13 percent over the last year. And we are going to continue to rigorously enforce our trade laws, including taking advantage of some of the new tools that Congress gave us with the Customs Enforcement bill that the President signed I believe last week.

It is important to understand that it can't—that domestic trade enforcement is an important part of the answer, but international coordination is also critical. U.S. imports represent only 10 percent of global exports, and we need to be working together with other countries, both steel importing countries who are dealing with many of the same issues our economy is, as well as steel exporting countries like China to push on their overcapacity.

Senator Klobuchar. Very good. Well as I said, the President's Chief of Staff came up to Minnesota. We have had thousands of layoffs, and it was really helpful to have him there.

I am going to ask you more questions about this pension issue in writing. But could you just talk in general about the importance in a volatile economy where you have on the one hand the Millennials dealing with the Gig economy, and having trouble saving because they do not have that kind of structure in place that we once had.

And then you have some seniors who have retired but things change with their pensions and it makes it very difficult for them.

So could you talk about just this importance in general of retirement?

Chairman Furman. Retirement security is very important. A lot of people are not prepared for retirement, and retirement security is enhanced when you are depending on multiple sources, Social Security of course being one, private savings being another, and pensions.

Pensions include both defined contribution and defined benefit. Defined benefit have faced a number of challenges in our economy, especially in the multi-employer segment. And that is an important issue. And the Pension Benefit Guaranty Corporation plays an important role in helping to make sure that those pensions function as well as they can.

Senator Klobuchar. Okay. And you know this issue with the Central States Pension Plan, which we can talk about more in the future, is affecting two-thirds of the nearly 400,000 participants who are going to have their pensions reduced as high as 70 percent. And so it is a real, big concern in northern Minnesota, which is the same place where all the layoffs of iron ore miners are occurring especially.

So, thank you.

Chairman Furman. Okay. Thank you.

Vice Chairman Tiberi. Congressman Grothman is recognized for five minutes.

Representative Grothman. Thanks for calling on me, and Chairman Furman I am honored to have a chance to be on a committee that you are testifying before.

One of the things I think we can all agree about is the labor participation rate now is a little bit disappointing. And when I get around my District, one of the big complaints employers have is they have a hard time finding employees.

Okay? On the other hand, they also feel that their major competition for those employees is the government itself because of all the government benefits that you get if you don't work, or don't work as hard as you can.

You mentioned that the unemployment rate has dropped during the Obama Administration, which it has, but at the same time the unemployment has dropped SNAP enrollment has gone up by 12 million, okay?

So it seems as though we are paying people either not to work at all, or not to work to their abilities. Could you comment on whether or not you feel all of the benefits out there that are available to you if you are making less money are contributing to the

low labor participation rate, or contributing to people not achieving their full potential?

Chairman Furman. Right. So thank you for your question.

For men between the age of 25 and 54, their labor force participation rate has fallen nearly every year since the 1950s. So this is a very long-standing phenomenon.

For women since the late 1990s, this happened even though we changed our social assistance system to be much less something that you would get regardless of whether or not you were working to something that you pretty much in most cases really requires you to work to get. In fact, many elements of our social assistance system—

Representative Grothman. I am okay to a certain extent you are talking about Earned Income Tax Credit there, which requires you to work a little, but as soon as you work more than a little they begin to take it away. But go ahead.

Chairman Furman. I was going to say the evidence on the Earned Income Tax Credit is that it does increase labor force participation because people deciding whether to work or not work, it's a several thousand dollar difference, and then you are right, there is a phase-in range, and a phase-out range, and those could have effects as well. But those appear to be dominated by the large amount of money that you get as an additional bonus for working.

Representative Grothman. I am going to disagree with you, but I am going to mention another problem we have.

Economists have found there is a positive correlation between stable two-parent households and better outcomes for families. Now it is not very difficult to come up with hypotheticals in which people are losing over \$30,000—a single parent could lose over \$30,000 a year by getting married.

Do you view—and I am hearing exact examples of that in my District. You know, parents saying my son can't get married and lose the benefits. That sort of thing.

Can you think of anything to do in the remaining time in this Administration, or any plans for the future that you could suggest for future administrations to do something about this huge marriage penalty we have right now?

Chairman Furman. Thanks for your question. President Bush passed some meaningful marriage penalty relief for many middle class families which President Obama signed into law on a permanent basis.

There is a substantial marriage penalty in the Earned Income Tax Credit that was reduced in 2009, that we just made permanent on a bipartisan basis this past December.

And then one of the proposals in the President's budget which I alluded to in response to a question from Ranking Member Maloney gets at the fact that secondary earners often face higher tax rates in the United States than in many other countries, and it can discourage them from working.

And so we have a tax benefit for secondary earners that we have proposed.

Representative Grothman. Would you agree, though, that we still have over a \$30,000 penalty say for a single parent making, with a couple of kids, making \$10,000 to \$15,000 a year, if they do

marry somebody making \$40,000 or \$50,000 a year? Would you agree with those figures?

Chairman Furman. I think for most middle class families we do not have a marriage penalty in the tax code anymore because of the steps taken——

Representative Grothman. I am not talking the tax code. I am taking all the benefits, the Earned Income Tax, the SNAP program, the——

Chairman Furman. That is higher than I would have put the number at, and in part because we have taken a number of steps. But there is certainly more we can do.

Representative Grothman. Yes, I will have to get you those figures. I will give you one more question. Before you talked about the fact that you felt we cut spending too much in, whatever, 2011, 2010, and it would have been better not to. Okay, so I take it you are a Keynesian economist, you kind of believe that deficit spending improves the economy.

In the budget that President Obama has recently submitted to Congress, you also have a larger deficit. It always kind of makes me wonder about you folks—and I love all people—but if the time to run a deficit is when the economy is weak as it was in 2010–2011, and now that we have had such a long period of time of lower employment, though our incomes are not where we want, and you are still running a large deficit, is there ever a time that economists such as yourself would suggest running a surplus?

Chairman Furman. The goal that we have in mind is having the debt on a declining path relative to the size of the economy, so that you are shrinking it relative to the economy. That is not something that under current law we would achieve. It is something that additional steps, including greater spending reduction and reducing tax benefits, especially for high income households, would help us achieve.

Vice Chairman Tiberi. The gentleman's time has expired.

Senator Casey is recognized for five minutes.

Senator Casey. Thanks very much.

Mr. Chairman, thank you for being here, and we have a day when folks were voting. In the Senate we are voting. So I will probably have just one question, but I think it is a critically important topic.

We could spend hours on this one topic, and I am glad that you have in your work and in the report and the work of the Administration, focused on what we sometimes call early care and learning. Early care meaning quality, affordable child care; and learning, of course, pre-kindergarten education.

But I noted—and I think they are both essential. And I see there is a relationship between the two. I noted on page 4 of your testimony you said, and I quote, that one of the chapters focuses on, quote, “disparities in opportunity that appear at an early age in the long run benefits of investments in the education, health, and well being of children.” Then you go on to talk about the gaps in the early health and cognitive skills of children.

And then you conclude by saying, quote, “Research demonstrates that direct investments in children can help close gaps in these important outcomes and can have lasting positive effects.” Unquote.

Then you have a chart there about cognitive skills, kindergarten versus fifth grade.

I have been working on these issues for years. And I think the connection between learning and earning is not only demonstrated but is something we should bear in mind: that if kids learn more now, meaning when they are in those early years, they will literally earn more later. And, frankly, we are all better off with that investment.

So I guess I wanted to ask you, number one, can you walk through some of the benefits that you see, maybe purely from an economic or workforce perspective, on making those investments in children in the dawn of their life?

Chairman Furman. Yes. Thank you so much for that question and bringing up that issue, because I think that is a really important chapter of the report and a really important example of how we can both promote productivity growth which we have been talking about in this hearing, and make sure that that productivity growth is shared more widely.

When you do an economic analysis of these types of early care programs and early education programs you find that it has two sets of benefits. One is actually an immediate benefit because it enables the parents, more often than not the mother, to work more if she chooses to do so. And it facilitates greater income for that family which itself is important for a learning environment for that child.

And then the second set of benefits, the ones you have talked about, are a robust connection between education as young as 3, 4, 5, and how much you earn in that 25, 30, 35 years of age. And when you look at for example just the extra tax revenue collected on those future earnings, that is enough to repay a substantial portion if not all of the initial cost of these programs.

I am not suggesting that we take that into account in the budgetary treatment of them, but in evaluating whether or not it is a good idea to undertake those programs that is certainly relevant.

Senator Casey. Yes. I know there are a number of studies that show the return on investment, which is really extraordinary. Sometimes it is you spend a buck on high-quality early learning and you get back multiples of that, sometimes into the teens.

Chairman Furman. Yes.

Senator Casey. So it is significant. I will, in the interests of time because I have to run to vote, I will yield back one minute and seven seconds.

Vice Chairman Tiberi. Thank you. We appreciate it. Mr. Hanna is recognized for five minutes.

Representative Hanna. Thank you very much. Thank you, Mr. Chairman. I want to say that I could not agree more with Senator Casey. The Arne Duncan Strong Start For Children Act, our past Secretary, I supported that and am pleased to be the lead of that in the House. And every possible matrix suggests that universal pre-K, or as near as we can get to it, is one of the best investments a society can make.

But on another matter, you talked about corporate inversions, and our high corporate tax rate vis-à-vis other countries, and mentioned that you believe it is an issue. How would you correct it? Be-

cause the issue has been demagogued I think by both sides in ways that are not helpful.

You know, certainly I have my opinion about it, but what would you like to see happen, Doctor?

Chairman Furman. Sure. I think there is a good way to address it, and there is an even better way to address it. The good way to address it would be to take a simple step of banning the practice of merging with a smaller foreign company and changing your tax domicile overseas, and thus claiming the set of benefits associated with being an overseas corporation. That is a step we could take today and it would reduce inversions.

The even better way to deal with it would be to do that at the same time that we make it more attractive to invest in the United States by reforming our business tax system, lowering the tax base—

Representative Hanna. Ultimately, though, one is not effective if you do not do the other.

Chairman Furman. I think we could do—I think it would be—the inversions are happening so quickly that I do not think we can afford to wait. And if it is going to take a long time to reform the tax code as a whole, then I would just deal with the inversions issue by itself. I think that would be the economically prudent thing to do.

The even better thing would be to reform the business tax system as a whole to make it more attractive to be here at the same time you're making it harder to invert.

Representative Hanna. Ultimately, I mean we are talking about larger businesses being co-opted by smaller ones.

Chairman Furman. Exactly.

Representative Hanna. But you also cannot stop the reverse. And the idea of building an environment that makes it fundamentally attractive to be here, which Chairman Brady supports I think, is really what we should be considering. And the fact that we have the highest corporate tax rates are among them.

And the world is a fundamental problem when you look at companies like Pfizer and Johnson Controls, and others, and Apple, and the conversation that ensues.

I want to ask you, though, about something that I am disappointed that I am afraid that we are not going to be addressing this year. And that is the Trans-Pacific Partnership. And I would like to give you an opportunity to talk about it in any way you would like, without rendering an opinion if you do not want to, but the idea that we are not taking up this conversation is deeply disturbing to me, regardless of where it goes.

Chairman Furman. Thanks for that.

As I said in my opening statement, one of the challenges facing the U.S. economy is that it is hard to export—increase your exports to a world where growth in the rest of the world is slower. In that environment, one of the steps we could take that could help make it easier for us would be to reduce or eliminate 18,000 taxes that our exporters face when they try to export to abroad. The tariffs that these 11 other countries in the TPP have.

One study found not just that there would be substantial benefits from doing TPP, it also found that if you wait a year to do it you

lose \$94 billion. You would lose more than \$600 or \$700 per household in our economy.

So I think it is not just important to do, it is important to do it as expeditiously as possible.

Representative Hanna. So you have heard the conversation on the street that unions are deeply against it, yet I find that most people are very much uninformed or misinformed. What do you say to those people, Doctor?

Chairman Furman. I say the United States is already a very open economy. It is very easy for other countries to sell here. What we are trying to do is break down the barriers that our companies face to countries around the world.

We also have very high standards in our country—labor, environment. This would ensure that other countries are raising their standards and put us in a better position to compete on a level playing field.

Representative Hanna. So that the net is a big benefit.

Chairman Furman. The net is a big benefit for workers, a big benefit for productivity, a big benefit for our economy overall.

Representative Hanna. How can we get that message out? I mean, it just does not seem to be getting any traction?

Chairman Furman. It is certainly something we have been trying to communicate and really make it tangible, that these are about cutting taxes on American exporters, and American exporters support higher-paid jobs.

Representative Hanna. Thank you, Doctor, my time has expired.

Chairman Coats [presiding]. Doctor, thank you. It is my understanding that Congressman Beyer has some questions, and feel free to take whatever time you need, and you're on.

Representative Beyer. Thank you, Mr. Chairman, very much.

Just two questions. Chairman Furman, on this Committee we have often focused on the lost economic gap between a perceived or a titular 4 percent growth rate versus the 1, 2, 2.5 that we have. And we look back over the last most of our lifetimes when we have higher rates of growth.

But I keep reading in various newspapers and magazines that absent some dramatic new disruptive technology, the agricultural revolution, the manufacturing revolution, the IT revolution, that we are destined to long-term growth rates of between 1 and 2 percent.

Your perspective?

Chairman Furman. Growth rates are a function of two things. One, how much is labor growing? And the second is how much is productivity growing?

Labor is growing more slowly now than in the past, for demographic reasons. If you look during the 1980s, for example, and you look at the growth of the population between age 25 to 54—this is the group of people most likely to be working—that was 2.3 percent annually.

Now the growth of the population in that age bracket is negative zero point one percent annually. This is a pure demographic fact. I am not talking about who is working or not working. It is just who is alive in that age range.

And so the Baby Boom really helped propel our growth forward. That is turning into a retirement boom. And for that reason, the labor component of growth is lower today and is going to be lower in the future.

The second component of growth is productivity. And there is a big debate that you alluded to in the economics profession about what the outlook for productivity growth is. I think, you know, no one really knows. And it depends on what inventions people have in the future. And if I knew what inventions people would have in the future, I would go out and invent them myself and probably not be before your Committee today.

[Laughter.]

I think there are a lot of reason to think we have a lot of potential. There is a lot of exciting technological developments in our economy, a lot of questions about how to apply them and make sure we are using them as well as possible. But I certainly would feel better if we were investing more in research, infrastructure, trade, business tax, all the different steps that we should be taking—lower deficit, all the different steps.

Representative Beyer. Thank you. One more question. China has lost about \$800 billion in currency reserves over the last 12 months. What are your views on the drivers of this capital outflow? Do you expect them to continue? And how about China's reserve adequacy? And, really, what is its impact on our economy?

Chairman Furman. That is certainly a really important question. And China has suffered from not always communicating its policies as clearly and as transparently as we would like to see them do, and as the market would like to see them do.

And one consequence, when you do not have transparent market-oriented policies that are communicated clearly, is that you can see various abrupt changes in financial markets.

So I think that is part of what is going on with China. China still has very substantial reserves. They have I think more than enough wherewithal to deal with the economic challenges that they face. The question is: Are they going to make sure that they are doing the right reforms, the right transparent policies, communicating them in the right way such that they are taking advantage of those resources to address the challenges they have.

Representative Beyer. Thank you, Mr. Chairman. Mr. Chairman, I yield back.

Chairman Coats. Thank you.

Congressman Grothman.

Representative Grothman. Yeah, I am kind of going a little different from the way Congressman Hanna went here. I know there are countries around the world that want to get the kids as soon as possible in the loving arms of school and away from their parents. In your report you emphasize that Head Start is a good way to improve economic success in children.

Your own HHS has found that Head Start has little or no impact in the long run across 22 different measures, and that actually 3-year-olds who attended Head Start were doing worse in math than their peers.

Now I know awhile before that the Brookings Institution, which were you affiliated with.

Chairman Furman. At one time, yes.

Representative Grothman. Themselves came out with the idea that Head Start really was not up to snuff.

Given that these studies that show that, you know, Head Start is not that great, that it is better to leave the kids with their parents—and Head Start of course it seems that they are the poorer kids, not kids across the board—why do you keep pushing this daycare stuff to get the kids away from their parents?

Chairman Furman. In the report we review several dozen studies conducted over a few decades. Any given study is going to have a different finding. We show that in broad terms they consistently find positive results.

A number of these studies were authored by Nobel Prize winning economist Jim Heckman from the University of Chicago, who happens to be a Republican as well—which is not relevant for evaluating his research—but I think this is a widely accepted finding in the economics profession.

Certainly high quality is important. You do not want to just do—you want to pay attention to the quality of what you are doing, not just anything.

Representative Grothman. You are familiar with the Brookings deal, too, right?

Chairman Furman. Yes.

Representative Grothman. Alright, so there are studies out there, HHS Brookings that it does not work out that well.

I will give you one more question. I am alarmed about the growing income gap in this country. And one of the things that I think contributed to it was the quantitative easing by the Federal Reserve, which as far as I can see is pushing money towards the, almost the most obscenely wealthy Americans, and kind of feeling that you are going to grow the economy that way.

I realize you do not have direct control over the Fed, but could you comment? Do you think it was a mistake in trying to juice the economy for the Fed in essence to financially benefit some of the wealthiest, or I guess wealthiest Americans?

I guess their idea was they thought it would trickle down, but do you think that was a mistake? Or is there a moral problem with that? Wouldn't you have thought it would have been better off if we had kind of debased the currency to at least give money more to the working stiff?

Chairman Furman. I do not comment on policy actions of the Federal Reserve. We think it is better for them to undertake those independently. But Congress granted the Federal Reserve a dual mandate in terms of employment and inflation, and I think any steps they take consistent with that mandate are ones that I would agree are in the best interests of our country.

Representative Grothman. So you agree with—am I wrong in thinking that quantitative easing, insofar as it gives an immediate benefit to somebody, gives an immediate benefit to the big Wall Street banks?

Chairman Furman. There is a large economic literature on the sources of inequality, and I do not think any major economic research thinks that monetary policy one way or the other is an important part of the explanation for changes in inequality.

Representative Grothman. Okay. Thank you for the additional time, Mr. Chairman.

Chairman Coats. Congressman Tiberi.

Vice Chairman Tiberi. Thank you, Chairman.

Thank you, Chairman Furman, for being here today and your sincerity on this difficult topic. I want to associate myself, just to keep in the back of your mind, with what Senator Lee said. I look at my own experience. I worked at McDonalds my first job, and I was really excited about six months in when I got a minimum wage increase. I got an increase in my pay, which was not very much, but the impact, good for me, was not so good on the two guys that got hired after me because they lost their jobs.

And I think that was what Senator Lee was talking about. But let me give you a better example of what I was thinking about when he was talking.

My next job in high school was pumping gas at a gas station. I am dating myself here. You cannot get anyone to pump gas anymore at a gas station. You do it yourself. And I remember the owner, a small businessman, telling us, most of us in high school and college, that the biggest cost driver of his business was us. And so we better perform.

And I did not have any skills in high school, but I learned how to pump gas. Well today that job is gone. In many service areas we find in our economy employers trying to figure out ways to reduce cost. And one of the few areas through technology that they can reduce cost impacts those high school kids that do not have those skills that they have yet to learn.

And we have in our State of Ohio, which is reflected really in many other states, more and more individuals with a lack of skills not being able to find those service jobs that once were plentiful when I was a kid.

In urban areas, it is even more tragic, where unemployment among Blacks and Hispanics are double-digits. So it is not a question, just to put in the back of your mind, I worry as we have meaningful, well intended, regulations from the Federal Government that sometimes they have just the opposite effect, which I think was Senator Lee's point, of trying to allow for those who have the skill set maybe that I had when I was 16 and had not yet developed, are being left behind. So, just a thought. And thanks for your sincerity again.

Chairman Furman. Okay. Thank you.

Chairman Coats. Well, Congressman, if you think you are dating yourself on your first job, wait until I tell you what my first job was.

[Laughter.]

I see Senator Peters has arrived. Senator, just in the nick of time. You are on.

Senator Peters. Well thank you, Mr. Chairman.

Chairman Coats. You have not come to a committee meeting in a long time where you walk in, sit down, and the chairman says you're on.

Senator Peters. I need to do this more often. This is great. So thank you for that.

And, Chairman Furman, thank you so much for being here as well to talk about how issues related to the economy and the future. I have a question regarding some of the long-term structural changes that seem to be occurring in our economy that I think are going to pose some potentially very significant challenges for us in the decades ahead.

I enjoyed reading The Economic Report of The President, which I am sure most people enjoyed reading and spending some time with it, but some very interesting discussion about growing income inequality, and job dislocations, job creation dynamism, et cetera.

But one issue that is addressed in here, and I think you have done some studies related to it as well, deals with the pace of technological change and the impact that that is having on the job market. And I think I heard some of that as I walked in here today.

It has always been that folks have always feared that technology would disrupt jobs, jobs would be destroyed, and we would have a much higher unemployment as a result of that. But it has never materialized, as jobs have—or as technology has destroyed jobs, which it has, it has always created even more jobs. They tend to be better jobs. They tend to be higher paying jobs. And a lot of the routine jobs have been displaced by ones that require higher education and skill training.

But it seems as if there are a lot of folks who think that we may be getting to an inflection point where the technology is advancing to the point to where even those high-knowledge jobs, creative jobs, also can be done with the technology; that you will have jobs physicians, for example, when you look at Watson and the medical breakthroughs that are being done with Watson that can diagnose disease perhaps better than most physicians can do it.

We know that for radiologists, there are machines that can do the job probably better than a lot of radiologists can. That we may be getting to the point, especially with artificial intelligence, that can radically transform the job market.

In fact I know there was a recent study that I was looking at that thought that in the matter of the next decade or two 50 percent of the job classifications in this country could probably be done better with some sort of technology than a human can do it, which is disturbing but it is a challenge.

What are your thoughts on that? And if that is indeed something we need to be concerned about, what sort of policies should we be thinking about right now?

Chairman Furman. So thank you for that. And I think this bears a lot of thought, and I do not think it is a particularly partisan issue. I do not think we have all the answers. I think it is something we all should be grappling with together.

To a first approximation, I think one hypothesis you stated is right. For thousands of years we have invented new machines. They have replaced things people used to do. Most of what people did in the 19th Century they are not doing today, and we are much better off as a country for it.

The problem is when that happens really abruptly, and when you are not prepared for it the consequence of that can be one of two things.

One is inequality. And the 50 percent figure, if you break it down by income, it is higher than that if your income is lower, and it is lower—well lower than 50 percent if your income is higher. And if you see a lot of lower wage jobs replaced, that is reducing the demand for those types of workers. That lowers their wages. That raises inequality. So one bad side effect is inequality.

The second is I certainly believe that over time if you lose a job you will be able to find another job, and hopefully a better job. But if a lot of people lose a job at once, though, that process can be long and painful. And we don't always make it as easy as we should.

What we should be doing in this regard is making sure people have more skills to take advantage of so that they are complementing the innovations and benefitting more from them. Making sure we have a labor market that is better at moving people from job to job.

The President had proposed a wage insurance program that would help get people back on their feet by insuring them against some of the wage losses associated with a job, as they move into a new job. And there is probably a lot more than that that we need to do, as well, that we need to keep thinking about.

Senator Peters. Well, and that is I guess the challenge with the training, as well as technology, particularly with artificial intelligence and what the promise of that is. With that promise there are some significant challenges, but it may be difficult to train folks as well in that area.

Now these are not things that I am worrying about happening in the next or five years, or perhaps 10, but at least from some of my reading it is something we should be very concerned about looking out beyond that.

For example, I have done a lot of work with autonomous vehicles, and I think you have talked about autonomous vehicles, something we are passionate about in Detroit, which will have incredible applications and, most importantly, will save tens of thousands of lives with the types of technology that will make cars safer, eventually leading to autonomous vehicles.

But autonomous vehicles can also have great promise for the economy. Would you talk a little bit about what you see happening with autonomous vehicles in transforming the economy and some of the investments that may be necessary from the Federal Government to make that happen?

Chairman Furman. Yes. I think that is an important question. And, you know, autonomous vehicles, everyone is interested in them in the world right now. U.S. car makers are making significant investments. German car makers are. Japanese car makers are. Israeli technology, and the like. And I think that is one reason why it is really important to make sure that a lot of it is happening here.

Some of that is a set of state regulations that allow experimental out-testing. You know, we already let cars with drivers on the road. That is already quite dangerous. It is often safer to let these cars on the road, and to make sure you are not letting your fears get in the way of being able to undertake that type of experimentation.

Basic research that we fund here in Washington is an important complement to the more applied research that is undertaken by the companies that are doing that. Investments in an infrastructure that supports both autonomous vehicles as well as, for example, electric cars and other types. There can often be a chicken-and-egg problem of if the infrastructure is not there they will not be there. If they are not there, the infrastructure will not be there.

Well, the government can play a role with public policy in overcoming those types of chicken-and-egg, or network externality obstacles to the adoption of a technology. So I think there are a number of different steps that we are thinking about and we need to keep thinking about.

Senator Peters. Great. Thank you so much. Appreciate it.

Chairman Coats. Chairman, thank you so much. I want to just follow up with one last thing while I have you here. If you could take yourself out of your current job, and let's say you're back at Brookings, or teaching at Harvard, or whatever, and I came to you and I said: You know, we talked about this runaway mandatory spending. A lot of it related to the aging of the population, the bulge that existed in the Baby Boom generation. We have done a number of things to address that. We have had sequestration. We have had the tax, the revenue increase that raised income taxes on the highest category.

We have, you know, economic growth will help us address that problem, but we still have the impact of this bulge of Baby Boom generation, and it is going to be with us for several years, and particularly affecting Social Security and Medicare, you know the numbers and so forth. If we were able to summon the will to bring together a bipartisan, bicameral Executive Branch working together [microphone interference]—I do not know why this is doing this, maybe my time is up—

[Laughter.]

But what would you recommend in terms of what we do now? Or what a next Administration, a next Congress should be thinking about in terms of addressing the challenge of the long-term problem that we have here, and doing it in a way to preserve the programs to assure the American people that the retirement benefits are going to be available to them. They are not at risk. Their health care entitlements are going to be available to them so they do not have that concern. What would you recommend, if that will was there and they said we want to go forward? What kind of formula do we have to put in place, particularly given what we have already done, but now what we clearly know that we need to do, and do it in a way that is not disruptive to the economy or the retirement capabilities and necessities of that generation?

Chairman Furman. So thank you for that. I think if it was a year from now and I was not in the government, I would tell you look back at President Obama's last budget. It had lots of great ideas.

One of them is Medicare Advantage, having competitive bidding that would set the reimbursement rates, rather than setting them the way we do now, which often results in rates that are too high.

On drugs, using the same way to purchase drugs for people who are dually eligible for Medicare and Medicaid, as we do for people in Medicaid.

Reforming the benefit structure in Medicare so that in appropriate ways there is more cost sharing in areas like Part B Home Health. Reduce the ability of Medigap to blunt some of that cost saving and have more income-related premiums.

Those are some of the types of steps we could take in Medicare.

What I would say is in health I would think, though, broader than just Medicare. I would think of the health system as a whole, both private and public. And the so-called Cadillac tax, or the tax on high-cost employer-sponsored insurance is I think one of the most important steps that we have to slow the growth of private health care. And it also results in additional revenue, and it is based on the idea that has been supported by—widely supported by both Democratic and Republican economists.

I would say, more broadly, that you want to think of elements of the tax code. If you look at tax benefits, tax preferences, those are technically termed “tax expenditures.” And my predecessors like Marty Feldstein, Greg Mankiw, and Glenn Hubbard who served under President Reagan and President Bush, have all said that we should be looking at those because they are also on autopilot. They are also not an efficient way of accomplishing the goals, and not a particularly fair way, either.

So I would bring that into it, and curb some of those tax expenditures for high-income households like the incentives we have for health, housing, and pensions.

Chairman Coats. Well thanks for that. I hope we can get to that point without getting there by crisis. I was around in 1983 when Social Security was about ready to go belly-up. President Reagan reached out to then Speaker of the House, Tip O’Neill. They took it out of politics. They secured about 30 years, 30, 35 years of solvency for Social Security. So it has been done. It can be done. But the question is, do you have to have the pistol at the temple of the politician in order to get it done? And oftentimes mistakes can be made when you are doing this in crisis form rather than just laying it out and doing it in a logical way, which does not end up making mistakes and putting people at risk.

So I think that is—I appreciate your giving us that template. Hopefully we can reach that point without getting to a crisis. I really appreciate you coming and being with us today, and your continuing availability to the Congress. Working together is the only way we are going to solve this, and you make it easy for us to do. We appreciate you being here.

And with that—well, let me just do a couple of housekeeping things here. We are going to keep the record open for five business days so that Members can submit anything else that they want to submit. And that would be for you, also, if you so desire.

And with that, the hearing, with thanks again to you, is adjourned.

(Whereupon, at 4:04 p.m., Wednesday, March 2, 2016, the hearing was adjourned.)

SUBMISSIONS FOR THE RECORD

PREPARED STATEMENT OF HON. DANIEL COATS, CHAIRMAN, JOINT ECONOMIC COMMITTEE

Chairman Furman, welcome. Vice Chairman Tiberi, Ranking Member Maloney, and I appreciate your willingness to once more continue the longstanding tradition of the Chairman of the Council of Economic Advisers testifying before the Joint Economic Committee.

This year marks the 70th anniversary of both the Council of Economic Advisers and the Joint Economic Committee, both of which were created to advise our respective branches of government on a wide range of matters affecting the economy. We appreciate this annual opportunity to engage in dialogue with you and look forward to discussing this year's Economic Report of the President.

Much has been learned over the course of this slow-growth recovery, and these lessons will only continue for the foreseeable future. The current recovery has seen far slower growth than previous recoveries, and subdued expectations about economic, population, and labor force growth have placed additional pressures on federal budget constraints.

However, I don't accept the often mentioned assertion that we have entered a "new normal" of slower economic growth. Policy reforms seeking to create a better tax system, rein in spending, and loosen the regulatory shackles restricting our economy can alter this trajectory by removing some of the structural barriers American workers and businesses face today.

In my opinion, a lot of the problems we'd like to solve require us, as policymakers, to look in the mirror and see how current Federal Government policies are affecting the economy.

In his final State of the Union address this year, President Obama stated that he wanted "to focus on the next five years, the next 10 years, and beyond." However, he omitted one of the most important issues that America faces in the coming years: the financial obligations that will come due over those time frames, and particularly in the "beyond."

Debt was not mentioned once in his address, and how to achieve fiscal sustainability was not among the four questions the President argued that "we as a country have to answer." I found this to be a glaring omission, given how our national debt has risen so sharply over the past seven years, from 10.6 trillion dollars when President Obama took office to now over 19 trillion dollars.

This accumulation of such staggering levels of debt is nothing short of reckless, and the situation will only get worse the longer we wait to address it. According to a recently released report by the non-partisan Congressional Budget Office, in just 10 years, spending on mandatory spending programs and interest on the debt will consume nearly 99 percent of all federal revenues. Clearly this path is unsustainable.

If we do not work to correct this disturbing trajectory, our ability to pay for essential government functions will be severely constrained, our economy will suffer, and our national security will be at risk.

The CEA's Report we will discuss today devotes significant attention to inequality as a defining challenge of the 21st century. However, I think it's important to recognize that intergenerational theft is also a form of inequality—a particularly severe one that our kids and grandkids are poised to inherit.

Their ability to succeed in our future economy will depend largely on the decisions we make today. For the American Dream to remain attainable for future generations, we must accept the reality of our fiscal situation and act responsibly by addressing it immediately.

I look forward to discussing these issues in more depth with Chairman Furman.

PREPARED STATEMENT OF CAROLYN B. MALONEY, RANKING DEMOCRAT, JOINT ECONOMIC COMMITTEE

Thank you, Mr. Chairman, for calling today's hearing.

Dr. Furman, thank you for appearing before the Committee today to answer questions about the current state of the U.S. economy.

I share the overall assessment of the Economic Report of the President, that under the leadership of President Obama the nation's economy is back on track after what was the worst recession in our history.

We have just completed the best two years of private-sector job growth since the 1990s. We have recorded the fastest two-year drop in the annual average unemployment rate in 30 years.

The unemployment rate has been cut in half. We're in the midst of the longest streak of private sector job creation in history, with a record 71 straight months of growth and the creation of 14 million jobs.

There are some who disparage these achievements, claiming that the Obama recovery pales in comparison to "average" recoveries—as if the economic meltdown during the last years of the Bush Administration was an "average" recession.

Is there anyone who is willing to say openly to the 8.7 million Americans who lost their jobs that the Great Recession was an "average" event?

Is there anyone willing to tell the 9 million Americans who lost their homes that this was a run-of-the-mill recession?

Some prefer that we forget the past. I say we should learn from it.

When George Bush left the oval office, the economy was in a death spiral.

- In the final quarter of 2008, GDP shrunk at a staggering 8.2 percent annual rate, the worst quarterly economic performance in more than 50 years.
- Housing prices were collapsing. They fell by 20 percent nationally between 2007 and 2011. Some parts of the country saw declines twice that large.
- U.S. households lost nearly \$13 trillion during the last seven quarters of the Bush presidency.

Dr. Furman, when I asked you last year at this time whether this recession was like a "common cold." You said—rightly—that it was more like an economic heart attack. You said the loss in wealth as a share of the economy that precipitated the recent recession was about five times as large as the loss that triggered the Great Depression.

Thanks to the bold action of President Obama, Democrats in Congress and the Federal Reserve, we have steadily climbed back from this recession.

- [As you can see in this chart,] U.S. GDP has grown in 24 of the past 26 quarters. Real GDP has grown by 14.5 percent since the start of the Obama Administration.
- The auto industry—written off for dead by some—has added nearly 640,000 jobs since 2009. U.S. auto exports topped 2 million units for the first time ever in 2014. Last year, they topped 2 million again.
- Average housing prices have rebounded to around their 2007 levels.
- And household wealth is more than \$17 trillion higher than before the recession.

This recovery has occurred despite efforts by many Republicans in Congress. First, they opposed stimulating the economy via the Recovery Act. They demanded budget cuts at exactly the time when economic theory says government should increase spending to boost demand.

I hope that those who took action to slow the pace of the Obama recovery will stop complaining about it.

The Report notes that the economy faces long-term structural challenges—first of all that the U.S. population is aging. That alone will decrease labor force participation and slow the growth of GDP. We also face the devastating effects of offshoring of American jobs and job losses due to automation and technological change.

These challenges are not a surprise. They have been on economists' radar for years.

So, what should we do? I agree with your assessment that we need to rebuild the nation's crumbling infrastructure, invest in early childhood education, implement paid leave, achieve equal pay for equal work and make college more affordable.

I want to close by looking at economic inequality, one of the central issues of our time, and the focus of the first and fourth chapters of the Economic Report of the President.

The U.S. experience has diverged from other advanced countries, as you note in your testimony, Dr. Furman. Since 1987, the share of income going to the top 1 percent in the United States has been greater than in every other G-7 country—every single year.

We need to recommit ourselves to policies that expand opportunities and narrow inequality. These policies will pay dividends in the future and help us create an economy that is even more robust—an economy where the benefits of growth are shared across the income spectrum.

As you note, giving all people a fair shot will strengthen our economy by boosting productivity and accelerating growth.

Dr. Furman, thank you again for appearing before the Committee today. I am eager to hear your perspective on the economic challenges and opportunities ahead.

Prepared Testimony before the Joint Economic Committee

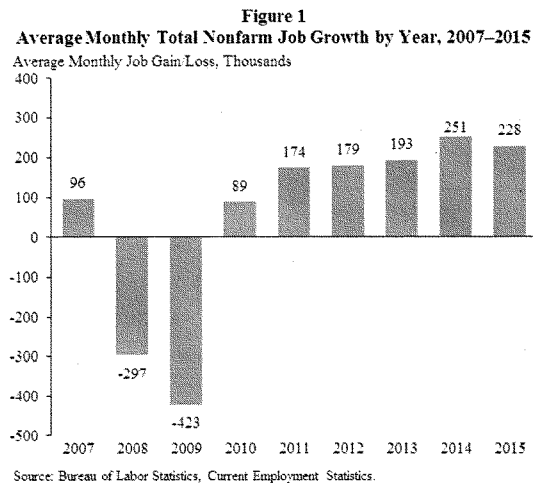
Hearing on “The 2016 *Economic Report of the President*”

Jason Furman, Chairman, Council of Economic Advisers

March 2, 2016

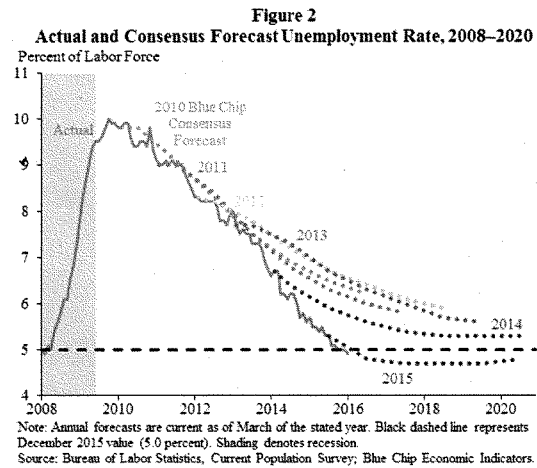
Chairman Coats, Vice Chairman Tiberi, Ranking Member Maloney, and Members of the Committee: Thank you for the opportunity to appear here today to discuss the 70th annual *Economic Report of the President*, which the Council of Economic Advisers released last week. This year’s *Report* reviews the substantial progress that the U.S. economy has made in recent years, describes the headwinds posed by the global economic situation, and outlines a number of key areas to promote robust, sustainable, and shared long-run growth.

As we note in this year’s *Report*, 2015 was a year of continued strength in the domestic economy despite substantial headwinds from abroad. This was particularly clear in the ongoing robust recovery in our labor markets. At the end of 2015, the United States marked the strongest two years of job growth since the 1990s (Figure 1) and the largest two-year decline in the unemployment rate since the 1980s, all while continuing the longest streak of monthly private-sector job growth on record.



As of January, the unemployment rate stood at 4.9 percent, its lowest level since February 2008. As recently as 2014, many economists expected that the unemployment rate would remain above 5.0 percent until at least 2020 (Figure 2). At the same time, the labor force participation rate was relatively stable over the past year, as improving economic conditions partially offset the drag on

participation from the retirement of the Baby Boom generation. And perhaps most importantly, over the past six months, nominal hourly earnings for private-sector workers have grown at their fastest pace since the Great Recession—although more work remains to boost wages and middle-class incomes. As the labor market continues to improve, we will not need to maintain the same pace of job growth to keep unemployment low. In fact, CEA estimates the break-even rate of employment growth—the rate needed to maintain a constant unemployment rate over the next year if the labor force participation rate moves in line with demographic trends—at 78,000 jobs per month.

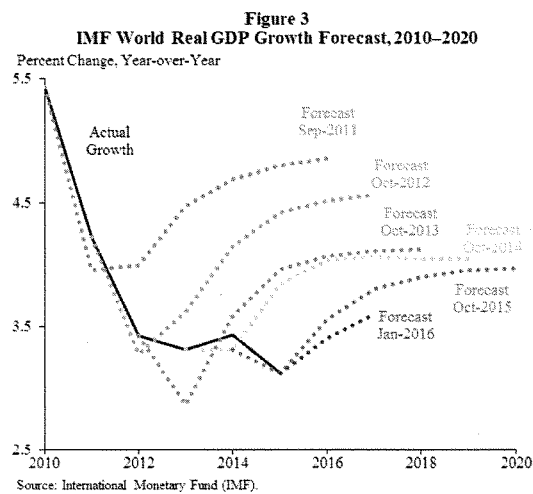


Other indicators also point to continued strength in the domestic economy in 2015. Over the past four quarters, multiple survey measures of consumer confidence reached highs not seen in over a decade. Real domestic demand grew, with personal consumption and fixed investment increasing 2.7 percent over the four quarters of 2015, bolstered by solid growth of real disposable personal income, continued potential for residential investment growth, and record-setting investment in research and development. Finally, CEA estimates that the economy saw a modest direct positive boost from the recent steep decline in oil prices, as the benefits to consumers exceeded the costs to domestic energy producers.

The United States has had the strongest productivity growth of any of the G-7 economies over the past ten years, but this growth has lagged our historic performance. As a result, while U.S. job growth has outperformed expectations, real GDP growth has failed to do so. CEA analysis, discussed in this year's *Report*, finds that a substantial portion of the slowdown in productivity growth reflects diminished investment in the wake of the Great Recession. To the extent that investment rebounds, and to the extent that the economy benefits from the rapid growth of private research and development—currently at its highest-ever level as a share of the economy—stronger productivity growth would be expected in the future. Continued monitoring of this important aspect of the economy will be important in the years ahead.

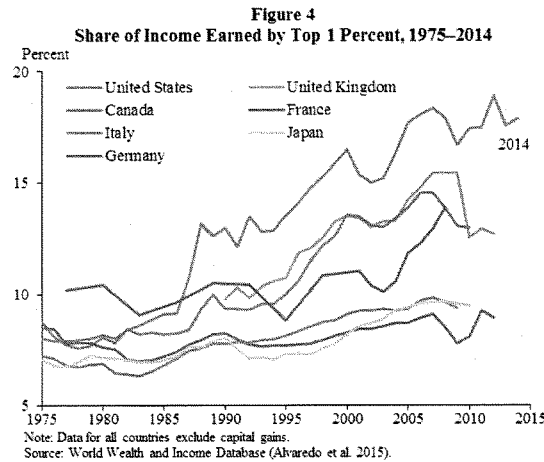
Our domestic progress is all the more notable in light of the substantial headwinds that the United States faces from the global economy. The International Monetary Fund estimates that global economic growth was 3.1 percent on a year-over-year basis in 2015, the slowest since 2009 and a continuation of downgrades to the global growth forecast (Figure 3). The United States had the highest growth rate of any major advanced economy, and growth in the euro area is estimated to have picked up slightly, but slowing growth in a number of large emerging markets weighed heavily on the global economy in 2015. On a year-over-year basis, China, for example, saw its slowest real GDP growth in decades, while both Brazil's and Russia's economies contracted sharply.

Weak growth abroad served as a drag on U.S. exports, with exports subtracting 0.1 percentage point from real GDP growth in 2015, down from a positive annual contribution of 0.5 percentage point in 2013 and 2014. This decline in exports was a key reason that U.S. GDP growth slowed to 1.9 percent during the four quarters of 2015 after growth of 2.5 percent in both 2013 and 2014. The Administration expects continued headwinds from the global economy in the year ahead, and we will continue both to monitor these developments and to engage with our key trading partners across both advanced economies and emerging markets to work to improve global growth.



Particularly in light of both recent global productivity data and these adverse developments in global demand, it is important that we work to strengthen domestic growth by boosting productivity and dynamism in the U.S. economy. It is also critical that we work to ensure that the benefits of economic growth are shared broadly, and, to this end, the 2016 *Economic Report of the President* lays out the President's agenda for "inclusive growth." Despite progress since the Great Recession, the highly unequal distribution of income, wealth, and opportunity remains one of the greatest challenges facing our economy. While the problem is not unique to the United

States, inequality in the United States is higher and, in recent decades, has risen faster than in other major advanced economies (Figure 4).

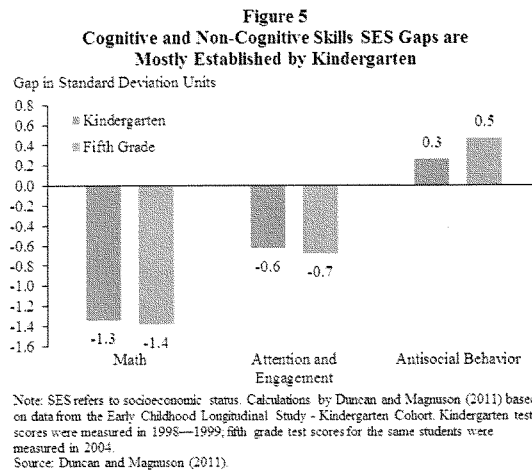


Some of this increase is a natural consequence of competitive markets—a result of differences in productivity as technology evolves. But some of the increase may reflect the rising influence of “economic rents,” income captured by companies and workers beyond what their productivity justifies. The apparent increase in rents in recent decades and their increasingly unequal distribution have contributed to overall inequality without boosting productivity, providing opportunities to improve both efficiency *and* equity in the U.S. economy.

The President’s agenda for inclusive growth addresses both sources of inequality, making competitive markets work better by increasing opportunity and by combatting the trend of rising, unequally divided rents. Competition most effectively promotes economic growth when it is open to the widest pool of talent—so the President supports promoting equality of opportunity by investing in education, supporting children in low-income families, and ensuring a fair criminal justice system. And the President supports policies to make markets more competitive by reducing overall economic rents—through promoting more open and competitive markets, balanced intellectual property rules, and a smarter approach to occupational licensing regulation, among other policies—and policies to ensure those rents are divided more fairly, by encouraging worker voice and raising the minimum wage. This agenda for inclusive growth can help ensure that the benefits of our resurgent economy are shared with all American households.

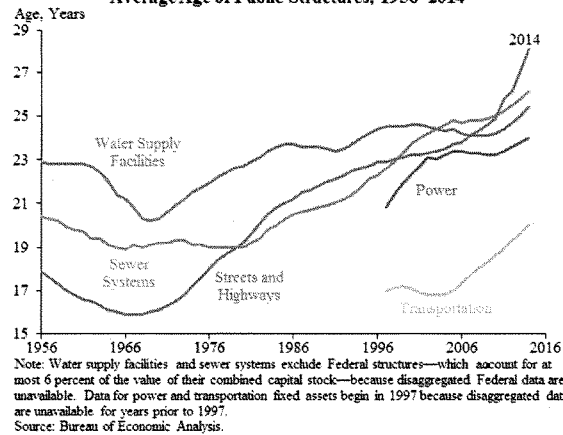
Other sections of this year’s *Report* lay out additional steps we can, and should, take to ensure a strong domestic economy that benefits all Americans. One chapter focuses on disparities in opportunity that appear at an early age and the long-run benefits of investment in the education, health, and well-being of children. Comparisons show persistent, large gaps in early health and cognitive skills of young children across households of different income levels, different races

and ethnicities, and different family structures (Figure 5). Research demonstrates that direct investments in children can help to close gaps in these important outcomes and can have lasting, positive effects.



Another chapter highlights the critical importance of infrastructure to economic growth and productivity. The quality of U.S. infrastructure has deteriorated since the mid-2000s, and the age of our public structures has increased in recent years (Figure 6). Efficient infrastructure investment boosts the productive capacity of our economy and can also protect the environment by shifting users towards cleaner forms of transportation, like public transit, and supporting the use of clean and renewable energy to reduce carbon emissions.

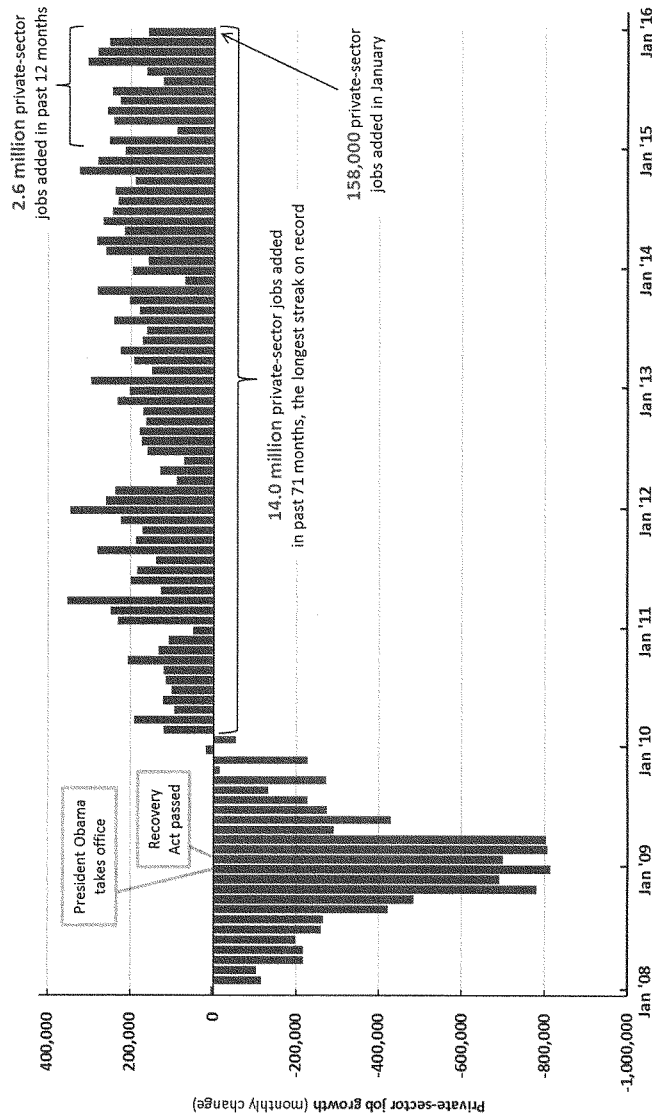
Figure 6
Average Age of Public Structures, 1956–2014



The *Report* also discusses a variety of developments in innovation, with attention to recent technological changes and their implications for productivity growth and for American workers. On the occasion of CEA's 70th anniversary, this year's *Report* also takes a look back at several key moments in the Council's seven-decade history and reviews CEA's role in economic policymaking across twelve Administrations.

I look forward to discussing these and other topics with you all today.

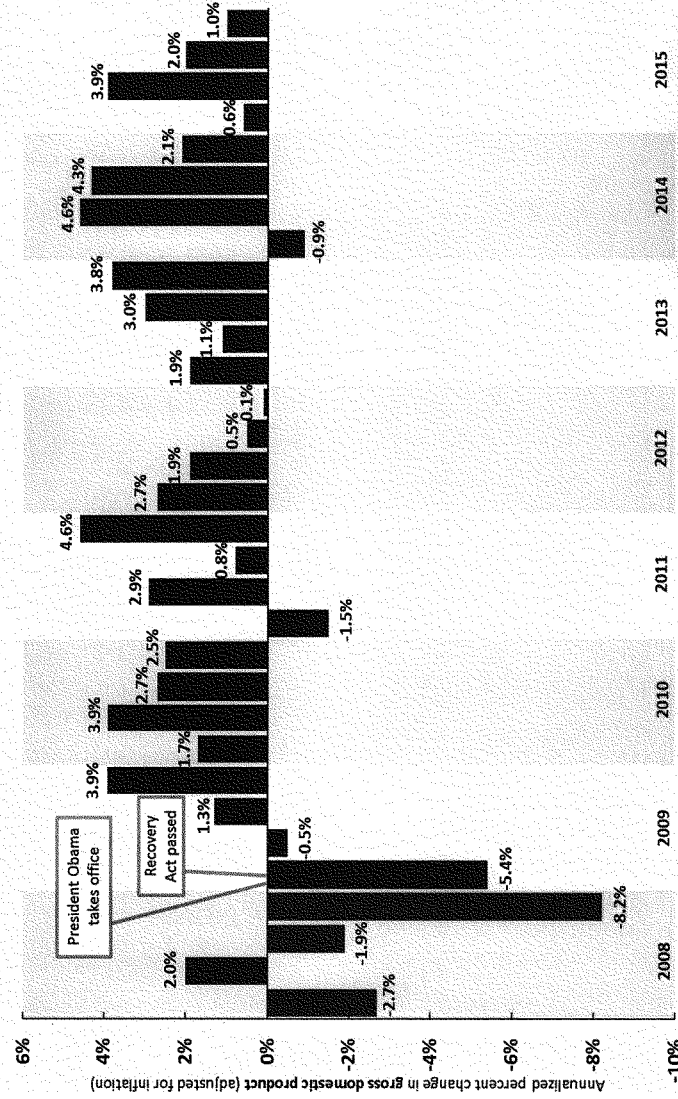
Longest Streak of Private-Sector Job Growth Continues



Source: Bureau of Labor Statistics (updates next on March 4, 2016)

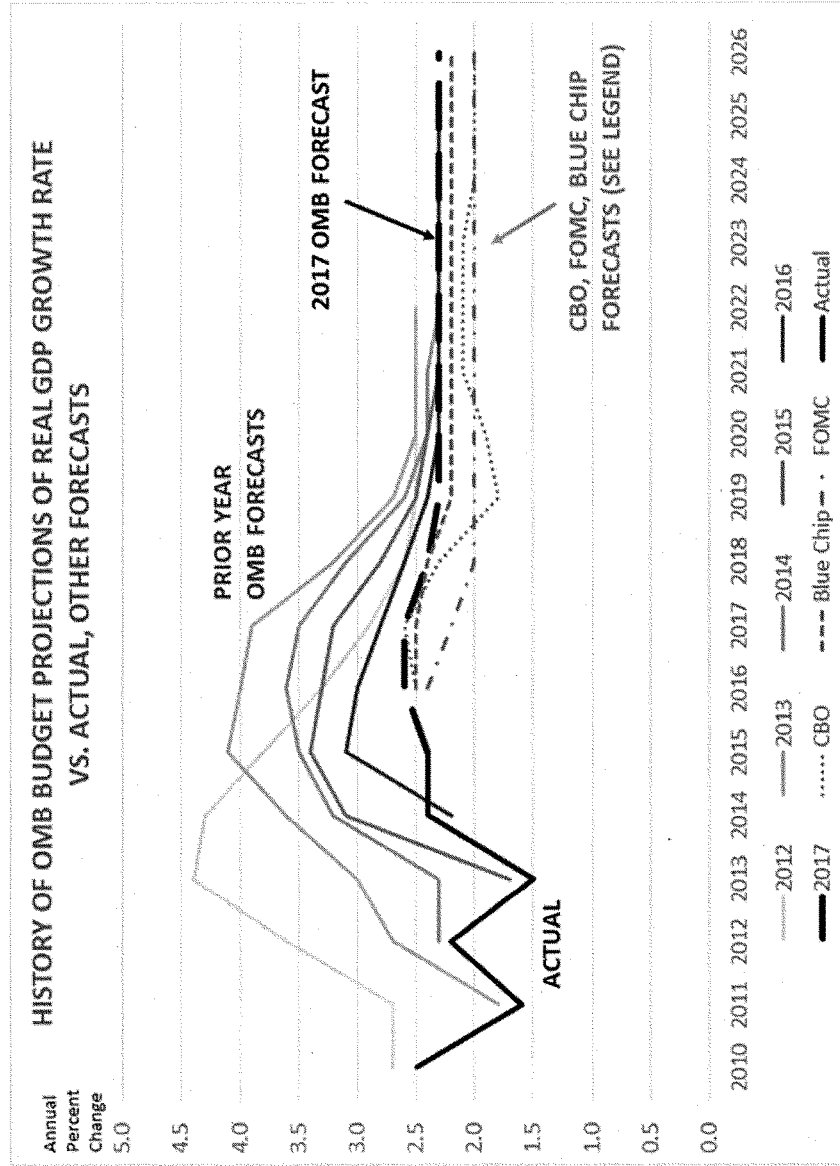


U.S. Economy Has Grown in 24 of the Last 26 Quarters

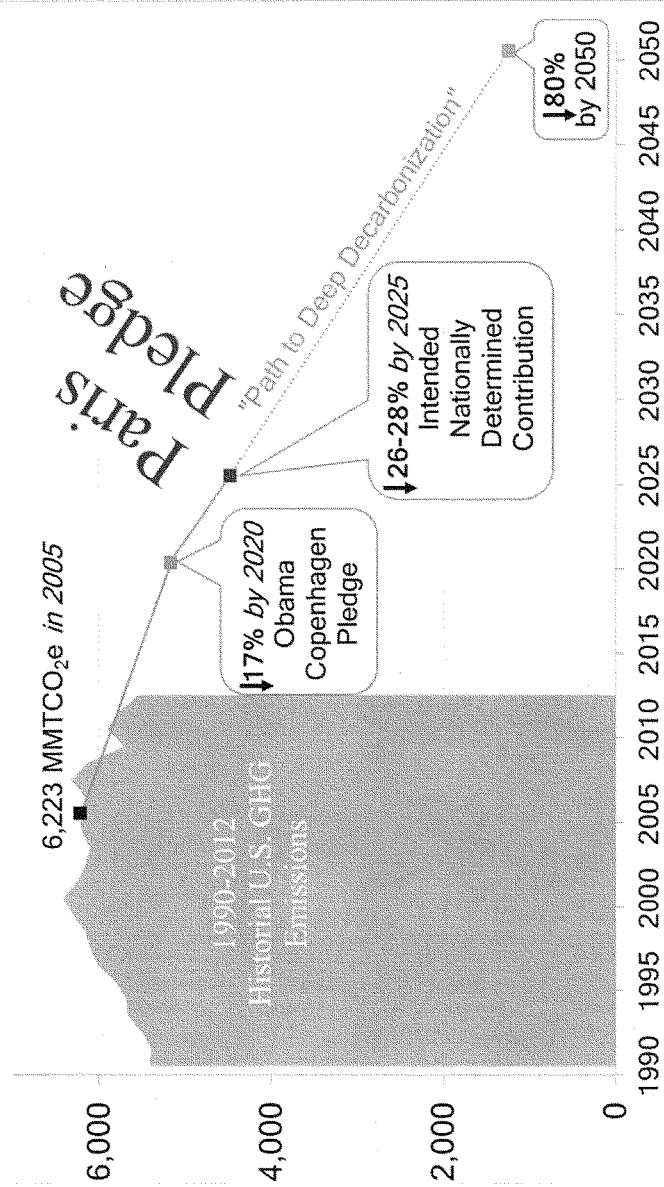


Source: Bureau of Economic Analysis (updates next on March 25, 2016)





Historical U.S. GHG Emissions, Non-Binding Reduction Pledges, and Long-Term "Pathway"
 Million metric tons of carbon-equivalent emissions (MMTCO₂e)



Source: CRS, with data from the U.S. Environmental Protection Agency. Based on U.S. Government. "U.S. Cover Note, INCD and Accompanying Information." March 31, 2015. Available at http://www4.ehponline.com/submit/submit.asp?submit_id=10000.

Notes: These estimates are of net human-related emissions, comprising gross emissions from energy and other sectors, net removals of CO₂ from the atmosphere by "land use, land use change, and forestry" and sequestration of carbon in harvested wood products.

**Joint Economic Committee Hearing
 “The Economic Report of the President”
 Questions for the Record for Chairman Jason Furman
 Submitted by Senator Martin Heinrich
 March 2, 2016**

1. Gender pay gap:

I want to thank you for including the gender pay gap in the Report. The Report states in plain terms that “[t]he typical woman working full-time full-year earns 21 percent less than the typical man.”

What do you think are some baseline policies that we have to adopt to close this gap?

RESPONSE FROM CHAIRMAN FURMAN:

The typical woman working full-time, full-year earns 21 percent less than the typical man working full-time, full-year. In addition, while the pay gap closed by 17 percentage points between 1981 and 2001, it has remained relatively flat since 2001. In the past two years, some modest progress has been made, with the gap closing by 1.8 percentage point from 2012 to 2013 and by an additional percentage point between 2013 and 2014. The gender wage gap has many causes and contributors, including differences in education, experience, occupation and industry, and family responsibilities. But even after accounting for these factors, a gap still remains between men’s earnings and women’s earnings.

Since the beginning of the Administration, the President has prioritized eliminating workforce discrimination and strengthening enforcement of anti-discrimination protections. Many workers, however, are unaware when they face wage discrimination. For example, a 2010 survey found that 19 percent of employees reported that their employer formally prohibited discussing salaries and another 31 percent are discouraged from discussing compensation.¹ A pay gap stemming from discrimination is particularly likely to exist under conditions of pay secrecy, where it is harder for workers to know whether they receive lower compensation than similar colleagues.

In order to improve pay transparency and help ensure fair pay, the President has called on Congress to pass the Paycheck Fairness Act, which would ensure workers’ right to discuss compensation without fear of retaliation. For the same reasons, the President issued an Executive Order that prohibits Federal contractors and subcontractors from discharging or otherwise discriminating against workers who discuss their pay. As an important additional measure, the Equal Employment Opportunity Commission and the Office of Federal Contract Compliance Programs are collaborating on the proposed collection of pay data by race, ethnicity, and sex from companies with 100 or more employees. This data collection, if successfully implemented, would strengthen pay discrimination enforcement, support employers’ voluntary compliance and self-assessment of their pay practices, and educate workers and jobseekers so that they may compare their pay to what others, on average, may be being paid for similar work.

¹ Institute for Women's Policy Research. 2010. “Pay Secrecy and Paycheck Fairness: New Data Shows Pay Transparency Needed.” <http://www.iwpr.org/press-room/press-releases/pay-secrecy-and-paycheck-fairness-new-data-shows-pay-transparency-needed>.

Other policies that can help ensure fair pay include modernizing outdated overtime regulations and raising the minimum wage. Of the millions of workers who would receive overtime protections from the Department of Labor's proposed modernization of overtime regulations if finalized, over half are women. Raising the minimum wage and phasing out the tipped minimum are particularly important for women because women are disproportionately represented in lower-wage sectors. Consistent with those objectives, the President signed an Executive Order initially raising the minimum wage to \$10.10 for workers on certain Federal contracts and also raising the minimum wage for tipped employees working on such contracts—and then subsequently indexing both to inflation. The President has also called on Congress to raise the minimum wage for all workers.

Family-friendly workplace policies can also help workers choose jobs in which they will be most productive, a further step in addressing the pay gap. Increasingly, mothers and fathers are sharing caregiving and family obligations, but many workplaces have been slow to adapt to this shift. Research indicates that both men and women value family-friendly policies when choosing a workplace. For example, work by economist Claudia Goldin shows that women are particularly likely to select careers, like pharmacy, that offer flexibility.² The demand for family-friendly workplace policies, however, is not limited to women. For example, nearly half of all working parents have reported declining a job because they felt the position would interfere with their family responsibilities.³ In fact, fathers in dual-earner couples are more likely to report work-family conflict than mothers in dual-earner couples.⁴ Recognizing the importance of family-friendly workplace policies, the President issued an Executive Order requiring that Federal contractors provide paid sick leave to employees working on or in connection with certain categories of Federal contracts. The President has also called on Congress to pass the Healthy Families Act, which would provide workers with the ability to earn paid sick days, and to pass a law that would give all families access to paid family and medical leave. The President has also proposed tripling the maximum child care tax credit to \$3,000 per young child and expanding access to child care assistance for lower paid workers, helping families afford quality care for their children and facilitating women's participation in the workplace.

² Goldin, Claudia. 2014. "A Grand Gender Convergence: Its Last Chapter." *American Economic Review* 104(4): 1091-1119.

³ General Social Survey, 2002, 2010; CEA calculations.

⁴ Family and Work Institute, National Study of the Changing Workforce, 2008; Employment Standards Administration, Quality of Employment Survey, 1977, as analyzed in Galinsky, Aumann, and Bond (2011).

2. Paid family leave:

I think one of the ways that we can promote wage gap equality for women is by making sure that women have access to paid sick leave.

The Albuquerque Journal recently highlighted that New Mexico has the lowest rate of workers with paid sick leave in the United States, with nearly half of workers without paid sick days. I am a cosponsor of S. 497, the Healthy Families Act, legislation that would allow workers to earn paid sick leave to use when they are sick, or when a family member is sick and needs to be cared for.

What is the economic impact for middle class families, and for working women, of having access to paid sick leave?

RESPONSE FROM CHAIRMAN FURMAN:

In most families with children today, both parents work and have responsibilities caring for their children, aging parents, or family members with disabilities. Yet the fundamental structure of work has not kept pace with the changing American family, and many families are struggling to balance obligations at home and on the job. As a result, too many workers are unable to take the time they need to recover from an illness or to care for an ill family member. Many workers will go to work sick, putting their coworkers and customers at risk of illness. Many parents are forced to choose between taking an unpaid day off work—losing much-needed income and potentially threatening their jobs—and sending a sick child who should be home in bed to school.

While roughly 60 percent of workers are eligible under the Family and Medical Leave Act (FMLA) to take unpaid, job-protected leave when the worker or a family member experiences a serious health condition, many workers are without coverage for less serious health care needs, and others may not be able to afford to stay home sick if it means the loss of pay. Just under 40 percent of private-sector workers do not have access to paid sick leave.⁵ Low- and middle-income workers are much less likely to have access to paid sick leave or paid family and medical leave than high-income workers.

With access to paid family and medical leave and sick leave, workers have more options to make the right choices for their families regarding work and their personal health and family's health. For example, when workers who do not have access to FMLA or paid sick leave must choose between spending the first few months at home with a new baby or maintaining their income, workers, especially women, are put in a difficult position and the economy potentially loses a worker who would have stayed in the labor force if he or she had had access to paid time off. Research has shown that women's higher likelihood of taking time out of the labor force is a contributor to the pay gap, and helping more women who want to stay in the labor force do exactly that by offering more paid leave could help to counteract this piece of the pay gap.⁶ Researchers have also found a number of health benefits of paid sick leave policies. This implies that these policies provide wider benefits to society, since workers with access to paid sick leave are more likely to utilize methods to keep themselves (and those around them) healthy. Studies

⁵ National Compensation Survey, March 2015; Bureau of Labor Statistics.

⁶ Bertrand, Marianne, Claudia Goldin, and Lawrence F. Katz. 2010. "Dynamics of the Gender Gap for Young Professionals in the Financial and Corporate Sectors." *American Economic Journal: Applied Economics*, 2: 228-255.

also suggest that those with paid sick leave are more likely to utilize preventative health care such as cancer screening.⁷

In addition to improving the work-life balance and the health of workers and their families, a body of research shows that paid sick leave can benefit employers by reducing turnover and increasing productivity. Paid sick leave creates a healthier work environment and helps prevent further productivity losses, since sick workers who stay at home are less likely to infect their coworkers. For example, a recent study showed that employee absences fell more rapidly after the peak of the 2009 H1N1 pandemic among public-sector workers, who had much higher access to paid sick leave, compared to private sector workers.⁸ Paid leave can also help reduce worker turnover. In a survey of 120 randomly selected employers in New York, employers that offered sick leave and child care assistance had significantly lower rates of turnover.⁹

Because of the many benefits to families and to our economy as a whole, the President has called on Congress to give millions of workers the chance to earn up to seven days per year of sick time by passing the Healthy Families Act. In the meantime, the President has: (1) signed a Presidential Memorandum that ensures that most Federal employees have access to at least six weeks of paid sick leave in connection with the birth or adoption of a child by providing employees with advanced sick leave; (2) supported legislation to provide Federal civilian employees with six weeks of paid leave for the birth, adoption, or foster placement of a child; (3) issued an Executive Order requiring that Federal contractors provide paid sick leave to employees working on or in connection with certain categories of Federal contracts; and (4) encouraged States and localities, as well as businesses, to make progress on providing access to paid sick leave.

⁷ Peipins, Lucy A., et al. 2012. "The Lack of Paid Sick Leave as a Barrier to Cancer Screening and Medical Care-Seeking: Results from the National Health Interview Survey." (<http://www.ncbi.nlm.nih.gov/pubmed/22788387>).

⁸ Drago, Robert, and Kevin Miller. 2010. "Sick at Work: Infected Employees in the Workplace during the H1N1 Pandemic." Institute for Women's Policy Research. (<http://www.iwpr.org/publications/pubs/sick-at-work-infected-employees-in-the-workplace-during-the-h1n1-pandemic>).

⁹ Baughman, Reagan, Daniela DiNardi, and Douglas Holtz-Eakin. 2003. "Productivity and Wage Effects of 'Family-Friendly' Fringe Benefits." *International Journal of Manpower* 24(3): 247-259.

3. Investment in women and children:

I think that efforts to improve the gender pay gap must also address access to child care.

As you mention in the Report, the Child Care Development Block Grant assist low-income families with paying for child care so that they can work or attend school.

Unfortunately, child care assistance dollars are subject to the cliff effect, meaning that once a parent's income goes above a certain threshold their assistance is cut off. So a 50 cent an hour raise could result in a family losing \$600 in child care assistance.

How would you restructure programs like these to incentivize workers to make more money?

RESPONSE FROM CHAIRMAN FURMAN:

One troubling aspects of the child care assistance program has been this "cliff effect," which may create incentives for parents to forego additional income to remain eligible for the program or may cause families to abruptly lose their assistance if they receive a modest pay raise. The Administration is working to address this through the implementation of the Child Care Development Block Grant reauthorization legislation, which Congress passed on a bipartisan basis in 2014.

Thanks in large measure to your work and the work of your colleagues, there are now new statutory requirements that will provide more stable child care assistance to working families, including those who receive pay increases. For example, the law requires that once families begin receiving child care assistance, they may continue to receive it for at least a year, regardless of increases in family income (as long as income remains at or below the Federal eligibility limit) and temporary changes in participation in work, education, or training. In addition, after this first year, the law requires States to make sure families are gradually phased off assistance if they are no longer eligible due to increased income, to prevent a sudden loss of benefits. The Administration has proposed new regulations to codify these statutory requirements and to provide additional safeguards for children and families receiving child care assistance. When finalized, these regulations will ensure States develop eligibility policies that take into account the changing needs of families and do not unduly disrupt the care of their children.

Moreover, the President's Budget proposal would address this issue by expanding access to quality child care for working families. Among other investments, the Budget includes \$82 billion in additional funding over ten years to ensure that all low- and moderate-income working families with children ages three or younger have access to quality, affordable child care. In addition, the Budget would streamline child care tax benefits, extend the child care tax credit to more middle-class families, and triple the maximum child care credit for families with young children, increasing it to \$3,000 per child. Together, these significant investments would align Federal child care assistance and alleviate the remaining "cliff" effect in the programs.

It is also important to note that safety net programs as a whole encourage and reward work. The Earned Income Tax Credit and Child Tax Credit, for example, phase in as earnings increase for low-income working families, providing a strong and proven work incentive.

**Joint Economic Committee Hearing
 “The Economic Report of the President”
 Questions for the Record for Chairman Jason Furman
 Submitted by Senator Amy Klobuchar
 March 2, 2016**

1. Steel and Iron Ore Mining – Workers

From 2012 through 2015, nearly 10,000 steelworkers and iron ore miners in seventeen States have lost their jobs due to increases in steel and steel products imports and are eligible for the Trade Adjustment and Assistance (TAA) program, including nearly 1,700 steel workers and iron ore miners in Minnesota who are currently laid off and eligible for TAA.

TAA provides vital benefits and services to workers who have lost their jobs because of trade including training and education. The Economic Report of the President states that we need, “a robust training and education agenda to ensure that displaced workers are able to quickly and smoothly move into new jobs.”

- *TAA works in connection with the services provided at the one-stop American Job Centers which were reauthorized under the Workforce Innovation and Opportunity Act of 2014. What additional programs or policies can we pursue to help workers who have been affected by trade?*

RESPONSE FROM CHAIRMAN FURMAN:

Programs under the Workforce Innovation and Opportunity Act, Trade Adjustment Assistance, Unemployment Insurance, and college affordability programs such as Pell Grants form a strong backbone of workforce policy that aims to help unemployed workers, including those affected by trade, quickly find new employment or train for new careers. The Administration has worked across agencies and with Congress to improve job training programs, ensuring that they are focused on preparing workers for in-demand jobs, measuring outcomes so we target our resources toward effective programs, and bolstering proven strategies such as apprenticeship that provide pathways to middle class jobs.

Following unemployment, many workers find that they can only be reemployed at a wage below the wage they earned at their previous job. Wage insurance, as proposed in the President’s FY17 Budget, would help fill this gap by partially offsetting wage losses for a fixed period of time. Research shows that on average, experienced workers starting over find themselves earning wages 10 percent or more below what they earned in the jobs they lost, and workers with more than twenty years of experience in their prior job face wages that are nearly a quarter less than what they made before.

The U.S. currently provides wage insurance to workers age 50 and older affected by trade under the Trade Adjustment Assistance (TAA) program called Reemployment Trade Adjustment Assistance (RTAA). However, due to the requirements of the trade adjustment programs, only a small share of jobless workers—67,738—were eligible for TAA in Fiscal Year 2014, with even fewer eligible for the narrowly targeted wage insurance program. In Fiscal Year 2014, out of the

62,706 participants in TAA, only 6,901 received RTAA or ATAA (a similar wage supplement program).¹

The President's wage insurance proposal would help protect more workers from the income loss that too often comes with having to start over by expanding eligibility to cover younger workers (including younger trade-affected workers) as well as non-trade-affected workers of all ages. With wage insurance, workers may be better able to take a new job rather than waiting and ending up in long-term unemployment. Evidence suggests that workers transition out of unemployment more quickly when they have wage insurance: a Canadian experiment showed that wage insurance increased entry into full-time work by 4.4 percentage points at the 26-week mark.²

Of course, no worker wants to become or stay unemployed, and it is important to take action to prevent workers from losing their jobs in the first place. Work-sharing, otherwise known as short-time compensation, can help companies avoid layoffs by entering into agreements to reduce employees' hours and allow those employees to receive partial compensation for their lost wages. That is why the President's unemployment insurance Budget proposals include incentives for States to give employers access to work-sharing programs that will encourage them to reduce hours instead of laying off workers. Researchers from the Brookings Institution estimated that if take-up of work-sharing in the United States in 2009 had been similar to that in Germany or Italy, as many as one in eight of the jobs lost during the recession could have been saved.³ For those workers who do become unemployed, the President's Unemployment Insurance reform proposal provides for a modernization of the program through incentivizing States to expand benefit coverage by increasing eligibility during recessions, by ensuring claimants receive a potential maximum of 26 weeks of benefits, and by shoring up the solvency of State programs.

Lastly, ensuring that trade agreements include strong and enforceable provisions that will promote high labor standards and open new markets to U.S. companies can help support employment in good-paying jobs here in the United States.

¹ Department of Labor. Trade Adjustment Assistance for Workers Program Fiscal Year 2014. <http://www.doleta.gov/tradeact/docs/AnnualReport14.pdf>.

² Bloom, Howard S. et al. *Testing a Re-employment Incentive for Displaced Workers: The Earnings Supplement Project*. Social Research and Demonstration Corporation, 1999. <http://www.srdc.org/publications/Earnings-Supplement-Project-ESP--Testing-a-Re-employment-Incentive-for-Displaced-Workers-details.aspx>.

³ Abraham, Katherine and Susan Houseman. 2014. "Encouraging Work Sharing to Reduce Unemployment." The Hamilton Project. http://www.brookings.edu/~media/research/files/papers/2014/06/19_hamilton_policies_addressing_poverty/work_sharing_abraham_houseman.pdf.

2. Retirement Savings – Central States Pension Plan

Many multiemployer pension plans are facing funding challenges and do not have sufficient plan assets to pay all of the benefits promised. I believe that we need to work together to find solutions that maintain the solvency of these multiemployer pension plans without severely penalizing current retirees, active employees, and beneficiaries.

In December 2014, the Multiemployer Pension Reform Act (MPRA) became law as part of the FY 2015 Omnibus Appropriations Act. Under MPRA underfunded multiemployer pension plans, like the Central States Pension Fund, can cut benefits for current retirees, active employees, and beneficiaries. I voted against this legislation because of the impact it could have on hundreds of thousands of American workers and retirees.

Right now, two-thirds of the nearly 400,000 participants of the Central States Pension Plan face the real possibility that their pensions will be reduced under the provisions in MPRA with some facing cuts as high as seventy percent. In Minnesota, there are nearly 22,000 participants in the Central States Pension Plan.

- *What are the benefits of a defined benefit pension plan for a safe and secure retirement on the economy?*

RESPONSE FROM CHAIRMAN FURMAN:

A traditional defined benefit (DB) pension can be an important part of a safe and secure retirement. Traditional DB plans generally specify a benefit formula in terms of salary and service. The benefit may be adjusted based on a participant's age at retirement, particularly in the case of early retirement. DB plans are typically funded by employer contributions, though employee contributions are common in the public sector. Private-sector DB plans are subject to minimum funding rules. The Pension Benefit Guaranty Corporation (PBGC) provides a partial guarantee for benefits paid by DB plans. DB plans are required to provide benefits in the form of an annuity, but may also offer alternative forms such as lump sums. Other important features of typical DB plans include professional investment management and pooling of mortality risk.

Nearly 40 million people participate in private-sector DB plans, and roughly one out of every five Americans over age 65 receives retirement income from such a plan. For Americans receiving a private-sector DB benefit, the median benefit is about \$8,500 per year.

- *What are the economic impacts on a community and the national economy of the possible benefits cuts, such as those proposed by the Central States Pension Plan?*

RESPONSE FROM CHAIRMAN FURMAN:

It is difficult to assess the ultimate economic impacts of benefit suspensions under the Multiemployer Pension Reform Act of 2014 (MPRA) due to the substantial flexibility plans have in structuring benefit suspensions and the uncertainty about what would happen in the absence of a benefit suspension. However, it is clear that beneficiaries who face significant benefit reductions, either through the MPRA benefit suspension process or through plan failure, face a

reduction in their incomes that likely was unexpected and that these reductions can cause financial stress for families.

Under MPRA, DB plans that are in “critical and declining status” can seek to reduce benefits through a process known as “benefit suspensions.” MPRA imposes several restrictions on benefit suspensions. For example, benefits may not be reduced for retirees age 80 and above or if based on disability, and benefits may not be reduced below 110 percent of the PBGC guarantee. Within these bounds, however, plan trustees have substantial discretion. The different choices plan trustees make about the timing and distribution of cuts could lead to markedly different impacts on active participants, retirees, and the plans themselves. At present, there is little experience on which to base an assessment of what a typical suspension might look like or how it would affect participants.

As noted, to be eligible for a benefit suspension, plans must be in “critical and declining status,” meaning that they are projected to become insolvent in less than fifteen years (in some cases twenty years). The PBGC’s multiemployer program guarantees a portion of the promised pension benefit if a plan becomes insolvent, but this guaranteed benefit may be substantially less than that promised by the plan. For a worker with thirty years of service in a multiemployer pension plan, the maximum amount guaranteed by the PBGC is less than \$13,000. The guarantee is higher for a participant with more service and lower for a participant with less service. Moreover, the PBGC faces funding challenges of its own. The liabilities of the PBGC multiemployer program exceeded assets by more than \$50 billion at the end of Fiscal Year 2015. The Administration has put forward a proposal for PBGC premium reform in its FY17 Budget that would nearly eliminate the risk of the multiemployer program becoming insolvent over the next twenty years; if PBGC’s finances are not shored up, PBGC may not be able to provide the benefit guarantee to participants in plans that fail. Thus, the benefits that plan participants affected by a benefit suspension would receive absent that suspension is highly uncertain.

Due to the wide variation in potential approaches to the level and allocation of benefit reductions under the benefit suspension process and the lack of clarity as to what would occur absent an application for benefit suspensions, it is not possible to provide a precise assessment of the economic impacts of possible benefit cuts. I am not able to comment on the specifics of any application for benefit suspensions, including the application submitted by the Central States Pension Plan.